SD Publication Series
Office of Sustainable Development
Bureau for Africa

Innovative Approaches to Agribusiness Development in Sub-Saharan Africa

Volume 3: East Africa

Final Report

Jim Maxwell
Richard D. Abbott
Abt Associates

Technical Paper No. 80
December 1997

USAID

Productive Sector Growth and Environment Division
Office of Sustainable Development
Bureau for Africa
U.S. Agency for International Development

Innovative Approaches to Agribusiness Development in Sub-Saharan Africa

Volume 3: East Africa

Final Report

Jim Maxwell
Richard D. Abbott
Abt Associates

Technical Paper No. 80
December 1997

Publication services provided by **AMEX International, Inc.**
pursuant to the following USAID contract:

Project Title:	Policy, Analysis, Research, and Technical Support Project
Project Number:	698-0478
Contract Number:	AOT-C-00-96-90066-00

Contents

Appendixes

Foreword

The creation of the Development Funds for Africa (DFA), and, more recently, funding contraints have challenged the U.S. Agency for International Development (USAID) to scrutinize vigorously the effectiveness and impact of its development assistance programs in Africa and to make adjustments needed to improve on the record of the past. Structural Adjustment programs have been adopted by many sub-Saharan African countries, albeit reluctantly, and some significant economic development progress has been made. As donor agencies face severe cutbacks and restructuring of their own and as less assistance become available to developing countries, in sub-Saharan Africa and elsewhere, new ways must be found to channel the declining resources to their most effective and productive uses. Donor agencies like USAID, therefore, are increasingly looking at the private sector for new and innovative ways of improving competitiveness, and often to agriculture as the potential catalyst for generating broad based, sustainable economic growth. In the light of the DFA and sub-Saharan African countries' recent development experiences under Structural Adjustment Program, the USAID Africa Bureau's Office of Sustainable Development, Division of Productive Sector Growth and Environment (formerly ARTS/FARA), has been examining the Agency's approach to the agricultural sector.

In January 1991, the Africa Bureau adopted "A Strategic Framework for Promoting Agricultural Marketing and Agribusiness Development in sub-Saharan Africa" to provide analytical guidance to USAID/W, REDSOs, and field missions. The framework suggested that:

(a) while technical and environmental problems must continue to be addressed, a major cause of poor performance of the agricultural sector has been the inefficiency of the market structures and strategies;

(b) improvements in marketing efficiency require a good understanding of the structural arrangements, organization and operating strategies available to those entrepreneurs who constitute the majority of the business entities;

(c) such improvements could have a significant beneficial impact on incomes, foreign exchange earnings, domestic consumption and food security.

To enhance the analytical guidance and technical support that the African Bureau provides to the field, SD/PSGE initiated a series of assessment of donor agencies' innovative agribusiness projects in a number of sub-Saharan Africa countries to develop case studies of agribusiness firms targeted by or benefitting from these projects. The objective of the assessments was to provide the Africa Bureau and Field Missions with an understanding of the role and significance of new, innovative agricultural marketing and agribusiness programs being implemented, and to synthesize a cogent set of lessons learned and their implications for USAID agribusiness project design and implementation.

This document is Volume 3 of a five-volume set presenting the East Africa (Kenya and Uganda) research findings. The East Africa research addressed all of the key focus areas of Non-traditional Agricultural Exports Development, Association Development, Small and Medium Enterprise Development, Financial Services to Agribusinesses and Monitoring and Evaluation.

Abt Associates, under the Global Bureau's AMIS II project, conducted the field research and report preparation. The USAID field mission in each country collaborated with PSGE/PSD and Abt Associates, the contractor, and was particularly helpful in providing counsel and direction of the field research and reviewing of the field draft report.

SD/PSGE believes that the findings and recommendations of this report will help the Africa Bureau, field missions, host country governments, and private sector groups make more informed decisions on future project design, implementation, monitoring, and evaluation.

David Atwood
Chief, Productive Sector Growth
and Environment Division
Office of Sustainable Development
Africa Bureau
USAID

Executive Summary

USAID Missions, and to a lesser extent other donors, are designing and implementing agribusiness programs intended to develop more efficient agricultural product marketing systems. USAID does not yet have effective monitoring and evaluation mechanisms for these recently established programs nor have the lessons learned from these innovative projects been disseminated to Missions.

The Africa Bureau's SD/PSGE Division therefore requested the Agribusiness and Marketing Improvement Strategies II (AMIS II) project to implement an activity titled "Innovative Approaches to Agribusiness Development in Sub-Sahara Africa." The purpose of this activity was to assess donor agencies' innovative agribusiness projects in a number of Sub-Saharan Africa (SSA) countries and to develop case studies of agribusiness firms targeted by or benefiting from these projects. The objective of the activity is to provide the Africa Bureau and Field Missions with an understanding of the role and significance of new, innovative agricultural marketing and agribusiness programs being implemented, and to synthesize a cogent set of lessons learned and their implications for USAID agribusiness project design and implementation.

The AMIS II project was established to provide USAID with access to private sector commercial expertise that would help improve agribusiness marketing. The major focus of AMIS II is to stimulate *input supply and postharvest-based, private sector led, economic development*. The AMIS II approach is to address agribusiness marketing efficiency and effectiveness improvement, and agribusiness project impact measurement and evaluation, from a *commercial* perspective. This report is therefore more prescriptive and less descriptive than a typical USAID document and is based on the expert judgments of analysts with extensive private sector operating experience.

The methodology utilized for this activity consisted of the following four basic steps: (1) identify and select Key Focus (apparent high-opportunity) Areas for research based on current USAID interests and the anticipated potential to positively affect agribusiness development. The four Areas chosen — based on a literature review, interviews in Washington, and a field survey — were **non-traditional agricultural exports (NTAE) development, association development, small and medium enterprise (SME) development**, and **financial services to agribusiness**; (2) select projects relevant to activity objectives and the Key Focus Areas that are sufficiently developed to at least *start* yielding lessons learned based on an initial field trip and discussions with Mission and Bureau managers, select field research countries (for this report Kenya and Uganda) based on the location of these projects; (3) complete a second field trip to collect detailed information on the selected projects and do case studies on target beneficiaries, primarily via in-depth interviews with project managers, donor management, and beneficiaries; and (4) analyze the information collected, extract lessons learned, and suggest the implications for enhancing the design, implementation, and monitoring and evaluation of USAID agribusiness projects.

The entire Innovative Approaches project has two phases. Phase I, this report, covers East Africa and Phase II covers West Africa, Southern Africa, and three secondary literature studies. Innovative Approaches research findings are reported in separate volumes for East Africa (Kenya and Uganda), Southern Africa (Zimbabwe, Mozambique, and Tanzania), and West Africa (Ghana, Mali, and Senegal). There will also be separate volumes reporting on the Secondary Research Findings and Overall Project Summary and Conclusions.

EAST AFRICA FINDINGS SUMMARY– BY KEY FOCUS AREA

Non-Traditional Agricultural Exports (NTAE) Development

The greatest impact from scarce USAID resources will be achieved when NTAE projects focus support on a few high-potential, medium-sized firms participating in high-potential product lines, as determined by subsector market opportunity assessments. An operating constraints analysis will help identify and prioritize NTAE development constraints for exporting firms. Guidelines need to be developed for these studies.

Technical Assistance to exporters should strike a balance between high-value (e.g., pre-pack horticultural products) and lower-value (e.g., cleaned and graded pulses) items in order to mitigate risk and maximize export earnings. High-value/value added exports are more complicated, more capital intensive, and entail significantly higher risks; exporters should be encouraged and supported to optimize value added — due to the potential for higher returns — by processing and/or packaging their products. This can be a way to utilize product that does not meet fresh export standards and to employ a significant quantity of local labor. The highest grade product should be exported to developed country markets, and good quality second-grade product to high purchasing power *regional markets* and then to urban domestic markets.

Association Development

Planners of business association development projects must determine if the conditions exist for association success and what type of programs are needed to stimulate that success. Association success criteria are: (1) strong leadership with a long-term commitment, (2) leadership that is trusted by members, donors, and government, (3) minimal government influence, and (4) a clear and relatively narrow focus. Associations will only become self- sustaining if they are effectively and efficiently serving their members' *priority* needs. A minimum score on an annual membership satisfaction survey, conducted by a third party, should be a condition for continued donor support of an association's. Guidelines need to be developed to assess an association's potential for success and to monitor how effectively an association is serving its member's priority needs.

Training on how to manage associations, especially financial management and how to develop or adapt programs that respond to members' evolving needs, is a high-yield donor contribution to association development. Therefore, management training should be a component of USAID programs to assist associations.

Well-focused *and well-managed* associations can bridge the gap between small farmers/agribusiness firms and the complexities of NTAE markets. Self-Help Groups (SHGs) of smaller farmers and/or entrepreneurs, who in turn belong to a donor-assisted association, are a good way to leverage scarce donor TA and financial resources.

Matching grants for association (or other institutional) development activities are an effective way to stimulate member involvement and commitment.

Small and Medium Enterprise (SME) Development

The two most important constraints on SME development are their (1) lack of marketing expertise and (2) minimal knowledge of sources of financial assistance (especially working capital) and how to apply for them. Donor assistance should concentrate on these two areas.

SHGs composed of SMEs can be linked to large enterprises, which can provide the SMEs with inputs, technical assistance, and markets. To be successful, however, the development and sustenance of these linkages requires intensive, hands-on management assistance by donors or donor-supported intermediaries.

The conditions for successful smallholder participation in NTAE are: (a) niche markets where producers have very few alternative buyers for their output, (b) low capital but high labor intensity, (c) a full-service local exporter who supports the business, and (d) a well-established international market with experienced buyer/exporters. Investing project resources in niche market *startup* industries is risky and very expensive.

Financial Services to Agribusiness

The major constraints to agribusiness lending by financial institutions are the shortage of commercially viable projects and poor loan and investment "packaging" by the borrower, *not* the lack of available funds. Therefore, technical assistance should be a part of any donor-supported agribusiness finance project and should include support for at least business plan development and loan or investment "packaging."

Donors can help SMEs identify and apply for sources of financing, especially working capital, at a reasonable cost by providing the services of specialized local business consultants to appraise and "package" small projects. Normal collateral requirements for SME loans can be relaxed if the loan officer has a good understanding of the commercial requirements of the applicant's business versus a strict Profit & Loss/Balance Sheet orientation. Full cost recovery for SME (and certainly micro) financial services is very difficult.

To achieve a high repayment ratio, a rigorous application appraisal by the lender (a feasibility study if the project is large enough to support the cost) is necessary, and the *borrower should supply a minimum of 50 percent of the equity* in the venture. In many cases, it is advisable for the lending institution to make direct payment from loan proceeds to the major suppliers of equipment to avoid misuse of the borrowed money.

Monitoring and Evaluation (M&E)

USAID M&E is in an early stage of development, but is more advanced than that of most donors. Substantial opportunity exists for enhancing USAID M&E, especially as related to direct and indirect impact by project component and type beneficiary, and cost versus benefit analysis.

Progress toward financial self-sustainability should be one of the main measures of performance for projects providing support to associations. Because the ability to manage cash flow is typically weak in associations, the development and monitoring of a Sources and Uses of Funds schedule is an important performance evaluation tool.

How extensively agribusiness project managers use private sector advisors and the impact of their contribution on a project should be monitored and evaluated. Private sector line managers, both expatriate and local, should be used more extensively by USAID Missions in the design and monitoring of agribusiness development projects, because they have a much better perspective on the challenges and opportunities private firms face than do government (direct or indirect) employees. Direct, local business experience is likewise important in helping to prioritize and pursue policy reform issues related to private sector development.

More random beneficiary sampling should be used and results presented by type beneficiary. Current beneficiary selection methodology may bias results. Impact by type beneficiary will help determine comparative yield on donor resources.

General Recommendations

Semiannual project review forums (½ day with a broad group of beneficiaries, local government officials, and private sector representatives; ½ day with the project team) should be used to coordinate project activities, improve their effectiveness, and enhance a feeling of local "ownership" of the project.

Many of the NTAE, SME and financial services development objectives and constraints identified in this activity can be addressed by integrating effective and focused technical and managerial assistance with debt and equity financial services in a single entity — a Food and Agribusiness Development Center (FADC). Initially donor and/or government funded, the FADC would be structured to become self-sustaining by income derived from services fees, a "spread" on debt, and entrepreneur or investor equity buy-backs. The FADC would be focused on supporting agribusiness enterprises in identified high opportunity subsectors and overcoming the priority constraints they face. Identifying and developing effective and efficient *intermediary organizations* (e.g., associations, Food and Agribusiness Development Centers, or NGOs/PVOs) is essential for leveraging scarce project resources.

Government approval and support for agribusiness projects are essential, but implementation should be independent of direct government involvement since the private sector generally prefers an "arms length" relationship with government, and government involvement in implementation will slow progress.

Key Issues

How effective is most general market information? Large firms say they don't need or use it, and small firms don't know how to use it. There is a need to develop effective ways to measure the usage of market information versus the cost of providing it, especially by type of information and type of user.

Is broad-gauged baseline monitoring data really necessary? Consider measuring the progress of assisted firms, and the associated indirect benefits, as a satisfactory way to determine the impact of a project.

How can the potential be optimized for outgrower/contract grower schemes on the model of the silk and vanilla projects in Uganda, schemes that have successfully reached out to both small farmers and women? The specific success criteria and methods for developing sustainable outgrower schemes, especially for specialty NTAEs, need to be determined.

What is the best and most efficient way to measure the full social and economic impact of support to large-scale enterprises (e.g., the Ziwa Roses project in Uganda)? Because USAID economic development objectives include increasing broad-based income, employment, and foreign exchange generation, these may be most efficiently achieved through support to medium and large firms. A comparative impact assessment is needed to respond to criticisms of this type of assistance; that is supporting the "big guys" who appear to need it least. Therefore, there is a need to determine the comparative primary and secondary impact of support for medium and large versus micro and small enterprises, including a cost/benefit analysis.

Glossary of Acronyms and Abbreviations

ADO	Agricultural Development Officer
AAK	Agribusiness Association of Kenya
AMIS II	Agribusiness and Marketing Improvement Strategies
ANNEPP	Agricultural Non-traditional Exports Promotion Program
APDF	African Project Development Facility
CAAS	Cooperative Agriculture and Agribusiness Support Project
CDC	Common Wealth Development Corp.
DFCU	Development Finance Company of Uganda
EDF	Economic Development Fund
EPADU	Export Policy Analysis and Development Unit
FADC	Food & Agribusiness Development Center
FPEAK	Fresh Produce Exporters Association of Kenya
GED	German Development Corp.
HCDA	Horticultural Crops Development Authority
HR	Human Resources
IESC	International Executive Service Corps
IFC	International Finance Corporation
IPC	Investment Promotion Centre
IPS	Industrial Promotion Service Ltd.
IRR	Internal Rate of Return
K-MAP	Kenya Management Assistance Program
KARL	Kenya Agricultural Research Institute
KEDS	Kenya Export Development Support Project
KEM	Kenya Equity Management
KESSFA	Kenya Small Scale Farmers Assn.
KSPX	Kenya Small Producers Exchange
KTPE	Kenya Trust For Private Enterprise
M&E	Monitoring and Evaluation
NGO	Non-Government Organization

NTAE	Non-traditional Agricultural Export
OCA	Operational Constraints Analysis
OCAP	Operational Constraints Analysis Project
ODA	Overseas Development Administration
P & L	Profit & Loss Statement
PTA	Preferential Trade Area
PVO	Private Voluntary Organization
REDSO	Regional Economic Development Support Office
SCEM	Standard Chartered Estate Management
SD/PSGE	Sustainable Development/Productive Sector Growth & Environment
SEPSO	Small Enterprise Professional Service Organization
SHG	Self-Help Group
SME	Small and Medium Enterprise(s)
SSA	Sub-Sahara Africa
SWOT	Strengths, Weakness, Opportunities & Threats
TA	Technical Assistance
TBD	To Be Determined
UCA	Uganda Cooperative Alliance
UDC	Uganda Development Corp.
UGEA	Uganda Grain Exporters Assn.
UHA	Uganda Horticultural Assn.
UMA	Uganda Manufacturing Association
UNFA	Uganda National Farmers Assn.
UOSPA	Uganda Oilseed Processors Assn.
USAID	United States Agency for International Development
USPA	Uganda Silk Producers Assn.
UVAN	Uganda Vanilla Corp.
VOCA	Volunteers in Cooperative Assistance

1. General Introduction to the Eight Country Study

1.1 BACKGROUND

USAID Missions, and to a lesser extent other donors, are designing and implementing programs with the objective of developing more efficient agricultural product marketing systems. The Africa Bureau's *Agricultural Marketing and Agribusiness Development Strategic Framework* calls for examining marketing constraints and identifying ways to improve marketing efficiency. USAID does not yet have effective monitoring and evaluation mechanisms for recently established agribusiness development programs nor ways to disseminate the lessons learned from these innovative projects to Missions in other countries.

USAID's Africa Bureau therefore requested the Agribusiness and Marketing Improvement Strategies (AMIS II) project to carry out surveys of innovative agribusiness projects in a number of Sub-Saharan Africa (SSA) countries for the purpose of providing the Bureau and Field Missions with: (a) a compilation of lessons learned to assist in developing future marketing and agribusiness development activities and (b) an effective monitoring/evaluation mechanism for its present and future activities. The complete Terms of Reference for the study are included as Appendix E to this report.

1.2 OBJECTIVE

"The objective of this research activity is to increase understanding of the role and significance of new, innovative agricultural marketing and agribusiness programs that Missions are implementing, and to synthesize a cogent set of 'lessons learned.' In an era of scarce development resources it is primordial that design innovations and project successes be disseminated rapidly and replicated elsewhere. As agribusiness development projects have grown more complex, the need for monitoring and evaluation has risen accordingly. The research activity will focus on two categories of innovative programs to support agricultural marketing development: supporting services and institutions; and financial systems and services."[1]

1.3 ANALYTICAL ISSUES TO BE ADDRESSED

The research activity calls for the consultant to monitor in the targeted countries the impact of new and innovative programs implemented by any donor agency and to carry out case studies of agribusiness firms targeted by a project or benefiting from a project.

As called for in the Statement of Work referenced above, the major analytical issues to be addressed are:

(1) What are the major constraints that the program or mechanism was designed to address?

(2) What are the performance indicators to measure impact and how do they relate to the goal and purpose of the mechanism/project?

(3) What has been the effect of the mechanism/project on private sector investment levels, export promotion, and people-level impacts?

1.4 THE AMIS II APPROACH TO AGRIBUSINESS DEVELOPMENT RESEARCH

The AMIS II Project was designed to provide USAID access to private sector commercial expertise that would help improve agribusiness marketing efficiency.

The major focus of the project is on stimulating *private sector led economic development*, not on enabling environment enhancement or social development. Although enabling environment enhancement/social development is an important aspect of economic development, the AMIS II project addresses it only when it acts as a constraint to commercial development. AMIS II focuses primarily on the provision of inputs to production agriculture and all aspects of agriculture *after the farm gate*. The project does not look at production agriculture issues unless so dictated by market requirements. The project utilizes a *market led* or *demand pull* approach.

The AMIS II approach is to address agribusiness marketing efficiency improvement and agribusiness project impact measurement and evaluation from a commercial/analytical perspective. Thus the report is more prescriptive in nature and less descriptive than a typical USAID project report. In other words, it deals more with the "so what?" and less with the "what's so" of agribusiness development activities.

The principal authors of this report (Maxwell and Abbott) are first and foremost agribusiness operations and consulting professionals with between them more than 50 years of international private sector food and agribusiness development experience, much of which was gained while living and working outside the United States. Most of this experience was in management positions with leading food, agribusiness, and agribusiness supply firms such as Beatrice Foods, ConAgra, Cargill, and FMC, and was focused on business expansion and market entry in developing countries.

Maxwell currently works for Cargill Technical Services, which reports to the head of Cargill Africa. Cargill's Africa operations include 15 agribusinesses located in 8 different African countries.

The result of the above orientation is a presentation style that is not academic (replete with numerous footnotes or citations) but crisp, authoritative, and judgmental. It is based on the authors' intimate and extensive knowledge of agribusiness firm operations, investor/financier perspectives, and their significant business development/market entry consulting experience. Therefore, the presentation style used herein utilizes pointed observations and represents the best business judgment of highly experienced and successful practitioners.

1.5 METHODOLOGY

The methodology adopted by the AMIS II team for this activity consisted of the following steps:

1. Identify and select Key Focus (apparent high opportunity) Areas for research based on major areas of current USAID interest and the anticipated potential of a key focus area to positively affect agribusiness development. The four areas chosen — based on a literature review, interviews in Washington, and a field survey — were **non-traditional agricultural exports, association development, small and medium enterprise (SME) development, and financial services.** The first three fall into the category of "supporting services," as mentioned in project objectives (see Section 1.2), while the fourth relates to the second category — financial systems and services. As part of this effort, the consultants reviewed the procedures used by the Missions and made recommendations to improve them (as called for in "Analytical Issues," Section 1.3 above).
2. Conduct a literature search on all identifiable USAID and other donor-supported agribusiness projects in SSA countries. (See Appendix F for a list of documents reviewed.)
3. Based on (1) and (2) above, select the SSA countries that have agribusiness projects or activities, sponsored by any donor, that relate to the Key Focus Areas. Solicit USAID Mission support to work in those countries that have both relevant projects and activities and sizeable agribusiness sectors.
4. Arrange and complete an initial field trip to countries where USAID Missions invited the consultants to work, and that have apparently relevant agribusiness projects and activities being implemented. Collect additional information on the selected projects and on any others suggested by field personnel. Confirm mission and REDSO-level Key Focus Area interest.
5. Screen the identified projects or activities and

select those that have aspects relevant to project objectives and to the Key Focus Areas and are that sufficiently developed to *start* yielding lessons learned.

6. Arrange and complete a second field trip to collect detailed information on the most relevant projects and do case studies on target beneficiaries, primarily via in-depth interviews with project managers, donor management, and beneficiaries.
7. Analyze the information collected, extract lessons learned, and suggest the implications for enhancing the design, implementation, and monitoring and evaluation of USAID agribusiness projects.

1.6 LIMITATIONS

Research was limited to the countries that responded positively to the SD/PSGE request for collaboration. The contractor invested considerable time obtaining permission from Missions to travel to their countries.

USAID has been the only donor interested in agribusiness development and this interest is quite recent. Therefore there are very few USAID projects with a sufficient track record for in-depth evaluation (i.e., any results are very short term in nature). Very recently, the World Bank and some German donor foundations have focused on private sector development, which often includes agribusinesses.

At the request of the Africa Bureau, a significant portion (17 percent) of the budget for this activity was allocated to the evaluation of a credit project in Mali that was not directly related to project objectives. This evaluation was well accepted by the Mali Mission, but was not in the original budget and did take resources away from this (Innovative Approaches I) undertaking.

1.7 ORGANIZATION OF THE INNOVATIVE PROJECT REPORTS

The entire Innovative Approaches project has two phases. Phase I, this report, covered East Africa and Phase II added West Africa, Southern Africa, and three secondary literature studies.

Innovative Approaches research findings are reported in separate volumes for East Africa (Kenya and Uganda), Southern Africa (Zimbabwe, Mozambique, Tanzania), and West Africa (Ghana, Mali, and Senegal). There will also be separate volumes reporting on the Secondary Research Findings and Overall Project Summary and Conclusions.

Each of the regional reports are organized as follows:

- Introduction
- Key Regional Findings (organized by the four areas of focus plus monitoring and evaluation, general recommendations, and issues deserving further study)
- Country Specific Studies (separate chapters)
    - Entities/Case Studies Selected
    - Findings on Donor Projects
    - Findings on Associations
    - Findings on Development Finance Organizations
    - Findings on Private Agribusiness Firms
    - Lessons Learned and Implications for USAID Planning — organized by the four areas of focus plus monitoring and evaluation, general recommendations, and issues deserving further study

Findings on the larger projects and associations were tabulated in matrix format, responding to the specific research questions listed in the Scope of Work. These matrices are included in appendices to the reports. The research questions, as interpreted by the consultants, are as follows:

1. What project or activity objectives are relevant to the areas of focus chosen for study?
2. How are these aspects of the activity innovative?
3. What performance indicators were or are being used to monitor/measure impact of the activity?
4. How are external influences being managed?

5. How successful have the relevant interventions been?
6. What new agribusiness opportunities have resulted from the activity?
7. What monitoring and evaluation mechanisms, systems, and indicators can be suggested?
8. What relevant lessons can be learned from this activity? What mechanisms worked and did not work, and how could the impact be improved/ enhanced?
9. What are the relevant implications for USAID project design and implementation?
10. What new mechanisms or interventions can be suggested to increase the effectiveness of these projects or activities?
11. What indicators of project success can be suggested, and what is the best way to monitor those indicators?
12. What other useful information should be reported and what are the main unresolved issues?

2. Introduction to the East Africa Study

Individuals representing entities from a broad range of sizes and stage of participation in the food system were interviewed during the fieldwork in Kenya and Uganda. A list of these individuals appears in Appendix G; the entities they represent are categorized in Table 2.1. With respect to the table, please note that:

- The focus of this project is on quadrants V, VI, VIII, IX, XI, and XII.
- In general, the viability of commercial entities deteriorates from the top right quadrant (III) to the bottom left (X), with commercial, project, and association risks increasing (due to the vagaries of nature, lack of management capacity, and tighter margins) in a very similar manner.
- One objective of this project is to identify, based on lessons learned, sustainable interventions that will make agribusiness ventures more viable and vibrant, particularly in quadrants V, VI, VIII, and IX. However, very few firms, projects, or associations were identified in quadrants VI and IX.
- All firms shown in the matrix were interviewed but not all are profiled herein (e.g., House of Manji and Sega Farms are very large operations not directly relevant to this study). However, executives from these firms are board members of the associations profiled.

Table 2.1 Size Distribution and Focus of Firms, Associations, and Projects Evaluated			
Enterprise Size	**Production Agriculture**	**Agribusiness**	**High Value-Added Processing**
Tier 1 > 100 full-time employees: *Established exporter*	Quadrant I **Standard Chartered Estate Mgt. (K)**	Quadrant II **Lonrho (K)** **Sega Farms (K)** **House of Manji flour milling (K)** <u>AAK (K)</u>	Quadrant III **Farmers Choice (K)** **House of Manji bakery (K)** <u>UMA (U)</u> **DFCU (U)** *APDF (U&K)*
Tier 2a 10 - 100 full-time employees: *New exporters (or not exporting at All)*	Quadrant IV **Echuka Farms herbs & vegetables (K)**	Quadrant V **Echuka Farms yoghurt (K),** **Ziwa Roses (U)** *ANEPP (U)* **Ronco (U)** *KTPE (K)* Uganda Hort. (U) *VOCA (U)*	Quadrant VI
Tier 2b 10 - 100 full-time employees: *Established exporters*	Quadrant VII	Quadrant VIII *KEDS (K)* <u>K-MAP</u> (K) **Karzan (K)** Uganda Grain Exporters (U)	Quadrant IX
Tier 3 (SMEs) < 10 full-time employees *New or interested in exporting*	Quadrant X *KESSFA (K)* *CAAS (U)* <u>Natl. Farmers</u> (U)	Quadrant XI *SEPSO (K)* <u>Vanilla & Silk Projs</u>.*(U)* <u>Oilseed Processors</u> *(U)* **Harriet Ssali (U)**	Quadrant XII

(K) Kenya

(U) Uganda

Firms are **boldfaced**; projects are in *italics*; associations are <u>underlined</u>. Classifications are based on the *majority* of the entity's focus.

3. Key East Africa Findings

Key findings from the Kenya and Uganda analyses and case studies are presented in this section under the four key areas of focus, plus findings on monitoring and evaluation. The statements combine “lessons learned” and “implications” from Chapters 4 and 5 of this report and are designed to provide guidance to USAID planners. These statements are based on the experience of the entities/projects studied in Kenya and Uganda and on the analyses carried out by the consultants. Two final sections include general recommendations and issues deserving further study.

3.1 NON-TRADITIONAL AGRICULTURAL EXPORT (NTAE) DEVELOPMENT

NTAE are usually defined as exports of agricultural products that have historically not been produced and/or exported from the exporting country. In Kenya and Uganda these are primarily fresh flowers and vegetables marketed to European countries.

(1) The greatest economic impact from NTAE activities, both in terms of increasing direct income and employment as well as indirect benefits, will come from assistance focused on established, medium-sized firms (those with 50 to 100 employees). These firms tend to be the ones with a reasonable level (e.g., the 50 percent discussed elsewhere) of equity to invest, trained and experienced staff, and reasonable market knowledge.

(2) Given that resources are scarce and assuming that the enabling environment is sufficiently supportive, USAID projects should focus support on a few high-potential, medium-sized firms, as determined by subsector market opportunity studies. Guidelines need to be developed for these studies.

(3) Flexibility and quick response must be features of USAID projects assisting an embryonic NTAE sector because of the rapidly changing conditions that characterize export markets.

(4) Intensive technical assistance (TA) to individual micro (<5 employees), and to a lesser extent small (5–50 employees), exporting enterprises is a sub-optimal use of increasingly scarce USAID resources. These enterprises tend to have a very high drop-out rate and are unlikely to reach the point where they can pay for such services. These types of firms need to be grouped in some way, such as in an association. (See comments in Section 3.2 below.)

(5) TA to exporters of fresh produce should strike a balance between high-value (e.g., pre-pack horticultural products), and lower-value (e.g., cleaned and graded pulses) items in order to mitigate risk and maximize export earnings. Higher value (or value-added) exports are more complicated, more capital intensive, and have significantly higher risks. However, exporters should be encouraged and supported to optimize value added — due to the potential for higher returns — by processing and/or packaging their products. This not only can be a way to utilize product that does not meet fresh export standards, but also can reduce the need for refrigerated storage and shipping (high value/low weight) and thereby minimize air freight costs. Therefore, the highest grade product should be exported to developed country markets, and quality second-grade product to high purchasing power regional markets and then to urban domestic markets, third-grade product where appropriate and feasible should be processed (where economy of scale opportunities exist) and fourth-grade used for animal feed.

(6) TA to producers (farmers) for non-traditional crops is best supplied by highly focused services provided by exporting firms that market the product, or by well-designed donor-supported projects, rather than by government agencies that have a much lesser understanding of market require-

ments and often outdated technology.

3.2 ASSOCIATION DEVELOPMENT

Associations may be groups of (a) processors in a particular agribusiness subsector, (b) general or specialized exporters, producers (farmers), or (c) some combination of the two.

(1) Planners of association development projects must determine at the outset if the conditions exist for association success and what type of programs are needed to stimulate that success. Associations are not likely to develop until an industry gets beyond the embryonic stage, that is, association development tends to *follow*, not *precede*, industry development. Association success criteria are: (a) strong leadership with a long-term commitment, (b) leadership that is trusted by members, donors, and government, (c) minimal government influence, and (d) a clear and relatively narrow focus. Guidelines need to be developed to assess association success potential. The AMIS II project has started this process.

(2) Management training for associations, especially financial management and how to develop or adapt programs that respond to members' evolving needs, is a high-yield donor contribution to association development when it is well done. Therefore, management training should be a component of any USAID program to assist associations.

(3) *Matching* grants for institutional and activity development are effective because they stimulate member involvement and commitment.

(4) Association organizers need to be aware that there are trade-offs with regard to size and scope of associations. "Voice" — the impact that association positions can have on policy — usually requires a large membership, but an association can more effectively provide services to its members when it has a narrow focus, such as flower exporting.

(5) In industry associations that include both big and small members, the "big tend to pay while small tend to use," a problem that can weaken or destroy the association. Therefore, a degree of homogeneity in size of member's firms is desirable.

(6) Vertically integrated producer/processor associations provide donors the opportunity to successfully support non-traditional agricultural export development while reaching small-scale farmers. This type of association is *most* effective when the exporters are few in number and work with relatively large-scale outgrowers, permitting a more cost-effective working relationship.

(7) Well-focused *and well-managed* associations can bridge the gap between small farmers and the complexities of NTAE markets. Working though Self-Help Groups (SHGs) of smaller farmers is a way to leverage scarce TA resources. For example, in Kenya, KESSFA (a small-scale farmers association) acts as an intermediary between farmer self-help groups and selected large exporters.

(8) Associations will become self-sustainable only if they are effectively and efficiently serving members' priority needs. A minimum score on an annual membership satisfaction survey, conducted by a third party, should be a condition for continued donor support of an association.

3.3 SMALL AND MEDIUM ENTERPRISE (SME) DEVELOPMENT

SMEs usually represent the largest number of agribusinesses in a developing country. Therefore their success is important to the livelihood of a large portion of most developing countries' population.

(1) Small, marginal enterprises should not be supported until a serious study of their economic viability is completed. Investing project resources in small potential (niche) market startup industries is particularly risky and very expensive

(2) Conditions for successful smallholder (producer) participation in NTAE exist when they involve:

(a) niche markets where producers have very few alternative buyers for their output, (b) low capital but high labor intensity, (c) a full-service local exporter supporting the business, and (d) a well-established international market with experienced buyer/exporters.

(3) The two most important constraints on SME development are their (a) lack of marketing expertise and (b) minimal knowledge of and access to sources of financial assistance (especially working capital) and how to apply for them. Donor assistance should concentrate on these two areas.

(4) Self-Help Groups are a useful way to leverage development resources aimed at SMEs and in many instances may be the best way to serve the needs of small agribusinesses. Another way to make use of SHGs is to link them with large enterprises which can provide inputs, technical assistance and markets. However, this latter type of activity requires intensive, hands-on management assistance by donors if it is to be successful.

3.4 FINANCIAL SERVICES

Without access to financing (both debt and equity) it is very difficult for agribusinesses to grow.

(1) The major constraints to agribusiness lending by financial institutions are the shortage of commercially viable projects and poor loan and investment "packaging" by the borrower, not the lack of available funds. Therefore, technical assistance, for at least business plan development and loan or investment "packaging," should be programmed into any donor-supported financing project.

(2) Rigorous application appraisal by the lender (a feasibility study if the project is large enough to support the cost) is necessary, and the *borrower should supply a minimum of 50 percent of the equity* in the venture. In many cases, it is advisable for the lending institution to make direct payment from loan proceeds to the major suppliers of equipment to avoid misuse of the borrowed money.

(3) The major financial need of SMEs is working capital. However, a general constraint affecting SMEs is their lack of knowledge of available financial resources and how to apply for them. Donors can help SMEs in this area at reasonable cost by providing the services of specialized local business consultants to appraise and package small projects. However, the skills of these persons need to be continuously developed through donor-supported training programs. Full cost recovery for services at the SME (and certainly micro) level should not be expected.

(4) Defaults on loans to SMEs can be minimized by specialized TA at a group level supplied through associations or self-help groups. One feature of such training should be how to match earnings streams from a financed activity to the funds needed for repayment of the loan. This will help overcome the problem of the gradual decapitalization of an SME in order to meet loan payment schedules.

3.5 MONITORING AND EVALUATION (M&E)

M&E systems are designed to improve the impact of donor projects by understanding the progress, or lack thereof, toward objectives as the project is being implemented (which may lead to mid-course adjustments) and assessing the results versus expectations upon project completion.

(1) USAID agribusiness project M&E is in an early stage of development, but it is more advanced than that for most other donors. Substantial opportunity exists to enhance USAID project M&E, especially as related to direct and indirect impact by project component and type of beneficiary, and, cost versus benefit analysis. Current mid-term and final project assessments need to be more rigorous on cost/benefit analysis and focus more on beneficiary impact evaluation. A project should also be assessed a reasonable length of time (e.g., 2 years) after its completion to determine the sustainability of accomplishments.

(2) A key assessment that needs to be completed *before* project initiation is the amount a subsector must grow to achieve a reasonable payback on the resources invested into that subsector. For example, how much does the $64-million Kenya horticultural exports industry have to grow to get a satisfactory payback on the $15-million KEDS project?

(3) Progress toward financial self-sustainability should be one of the main measures of performance for projects providing support to associations. Because the ability to manage cash flow is typically weak in associations, the development and monitoring of a Sources and Uses of Funds schedule is an important performance evaluation tool.

(4) Membership satisfaction is another prime indicator of the performance of an association. Membership surveys or polls should be carried out annually, and to ensure credible results they should be carried out by professionals. One element of such a survey for an association that markets producers' output is a comparison of the price received from the association versus selling through buying agents — taking into account the value of other benefits a member may receive from the association. Associations should earn a minimum annual membership satisfaction score in order to continue to receive donor support.

(5) Project evaluations should include breakouts by type and size of beneficiary, including costs of services provided versus benefits; for example, increased output versus the cost of services provided by size firm. Input/output (cost/benefit) analysis is a useful tool to measure direct benefits against direct costs both for the overall project and for project components. This should be done on a quarterly basis and reviewed/managed by USAID personnel.

(6) The frequency of use of private sector advisors and the impact of their contribution should be monitored to ensure that agribusiness project managers are utilizing private sector expertise.

(7) Information on the secondary impact of assistance to large firms (e.g., employee income and how it is spent, business generated by purchases of supplies and equipment from local suppliers, or services provided locally, such as transportation, legal and accounting services, insurance, etc.) should be collected and analyzed. This will enable M&E of the full impact of support to larger firms.

(8) More *random* beneficiary sampling should be used, rather than the current sampling, which is guided by project management.

3.6 GENERAL RECOMMENDATIONS

The following lessons learned and implications do not fit into the above areas of focus but they are relevant to agribusiness project design and implementation.

(1) A thorough opportunities and constraints analysis is needed before decisions are made about Mission support to commercial enterprises in a given agribusiness subsector. This is necessary to prioritize the subsectors of primary interest. The analysis should pay particular attention to the competitive advantage of the product in its target markets as well as to the availability of trained personnel and the necessary financial resources. Operations Constraint Analysis is a useful tool in this process.

(2) Semiannual project review forums (½ day with a broad group of beneficiaries, local government officials, and private sector representatives; ½ day with the project team) can be used to coordinate project activities, improve their effectiveness, and enhance a feeling of local "ownership" of the project.

(3) Private sector advisors, both expatriate and local, should be used more extensively by USAID Missions in the design and monitoring of agribusiness development projects because they have a much better perspective on the challenges and opportunities they face than do government employees. Direct, local business experience is likewise important in helping to prioritize and pursue policy reform issues related to private sector development.

(4) Identifying and developing an effective *intermediary organization* (e.g., an association, a FADC, or an NGO/PVO) is important for leveraging scarce project resources in agribusiness development projects.

(5) Government approval and support for agribusiness projects are essential, but implementation should be independent of direct government involvement because the private sector generally prefers an "arms length" relationship with government; government involvement in implementation will slow progress.

(6) Active steering committees, with extensive private sector participation, must play a stronger role to ensure success at all stages of project implementation.

3.7 ISSUES DESERVING FURTHER STUDY

The following issues are unresolved questions for which there are no apparent answers. Answers to these questions, however, would enhance agribusiness project design and implementation in East Africa. Each includes a suggestion for resolving the issue.

(1) How effective is most general market information? Large firms say they don't need or use it, and small firms don't know how to use it. There is a need to develop effective ways to measure the usage of market information versus the cost of providing it, especially by type of information and type of user?

(2) Is broad-gauged baseline monitoring data really necessary? Segregating dependent and independent variables in macro impact measurement is very difficult, and the cost of direct impact macro measurement is usually quite high versus the benefits realized. Consider measuring the progress of assisted firms and the associated indirect benefits as a satisfactory way to determine the impact of a project.

(3) Can commercial associations be used to improve input supply, replacing outmoded state or cooperative channels? Conduct an investigation of how commercial associations can be developed and supported to function as middle-men between MSE producers and exporters, thus enabling some economies of scale.

(4) How can the potential be optimized for outgrower/contract grower schemes on the model of the silk and vanilla projects in Uganda, schemes that have successfully reached out to both small farmers and women? Assess the specific circumstances and methods for developing sustainable outgrower schemes, especially for specialty NTAEs.

(5) What is the best and most efficient way to measure the full social and economic impact of support to large-scale enterprises (e.g., Ziwa Roses project in Uganda)? If the development objectives are to increase broad-based income, employment, and foreign exchange generation, it may be most efficiently achieved through support to medium and large firms. An assessment is needed to respond to criticisms of this type of assistance, that is, giving assistance to the "big guys" who appear to need it least. Determine the comparative primary and secondary impact of support for medium and large versus micro and small enterprises, including a cost/benefit analysis.

(6) What is the best way to effectively communicate needed agribusiness skills to local agriculture and business schools? Determine how the current and anticipated skill needs of agribusiness can be communicated to local agricultural and business schools and how private sector leaders can play a more active role in curriculum development and teaching.

(7) Should or can micro and small enterprise (MSE) support institutions become self-financing? Assess the financial payback amount and likely term on MSE projects and determine if a reasonable payback can be achieved. If not, what other M&E should be developed to assess these types of projects.

4. Kenya

4.1 ENTITIES SELECTED FOR STUDY

For Kenya case studies the consultants selected six donor-supported innovative agribusiness entities and four private agribusinesses. These include three projects (two funded by USAID and one by a German NGO), two associations, and one development finance organization. The four private agribusiness enterprises significantly enhanced our understanding of agribusiness in Kenya.

Projects: (with supporting donor in parenthesis)

KEDS — Kenya Export Development Support Project (USAID)

SEPSO — Small Enterprise Professional Service Organization (Friedrich Naumann Foundation)

K-MAP — Kenya Management Assistance Program (USAID)

Associations:

KESSFA — Kenya Small Scale Farmers Association (Hans Seidel Foundation)

AAK — Agribusiness Association of Kenya (USAID support requested)

Development Finance Organization:

KTPE — Kenya Trust for Private Enterprise (USAID)

Private Enterprises:

Karzan Inc.

Lonrho

Standard Chartered Estate Management

Echuka Farms

Most of the donor-supported entities have multiple areas of focus (see Table 4.1). Therefore an assessment of each project, association, or organization was performed for each area of focus.

The assessments of the projects, associations, and other organizations that appear in the following sections include summarized Objectives, Impact and Discussion sections, and the Conclusions reached from that case study. Because the first four entities listed in Table 4.1 are large and important, detailed assessments, organized according to a standard set of criteria, were also prepared. These detailed assessments are included as Appendix A to this report. Detailed profiles of the associations, development finance organization, and private business firms assessed are found in Appendices B, C, and D, respectively.

4.2 FINDINGS ON PROJECTS

Following are the main findings from each of the projects assessed.

4.2.1 Kenya Export Development Services (KEDS)

Sponsor: USAID

Project Value: $15 million

Start Date: March 1992

Completion Date: December 1999

Principal Agribusiness-Related Objectives:

Association Development: Improve the capacity of the Horticultural Development Authority (HCDA, a parastatal) to deliver market-relevant services to members; strengthen the Fresh Produce Exporters Association of Kenya (FPEAK) as a private sector trade association.

Non-Traditional Agricultural Export Development: Deliver TA (especially marketing) to exporting firms; increase NTAE employment and exports; promote policy reform and regulatory change to enhance the export competitiveness of Kenyan firms; promote dialogue between government and the private sector.

Table 4.1 Kenya Innovative Projects and Their Areas of Focus

Project/Association (Donor)	Non-Traditional Export Promotion	Association Development	Small & Medium Enterprise Development
KESSFA (HSF)	Yes	Yes	Yes
KEDS (USAID)	Yes	Yes	No
SEPSO (FNF)	No	No	Yes
K-MAP (USAID)	Some	No	Yes
AAK (Possible USAID)	No	Yes	Interested
KTPE (USAID)	Some	No	Some

Discussion: The KEDS project is working primarily with *established* small and medium-sized[2] exporters rather than with new exporters. One of the reasons for the project's success is that many important policy changes influencing exporters (e.g., liberalization of the exchange rate) occurred at the beginning of the project or before the project was up and running. An important aspect of the KEDS project is the active encouragement of public-private sector dialogue. Such dialogue is essential in a business environment like Kenya's because distrust and lack of communication are widespread between participants in the two sectors. This improved dialogue is achieved through workshops, conferences, and a KEDS long-term technical advisor housed within the Ministry of Finance.

The most important findings from the assessments/case studies form the basis for the conclusions presented in section 4.6, where Kenya cross-cutting lessons learned and implications for USAID planning are summarized.

The KEDS firm-level assistance activity utilizes strategic consultancy visits to companies that request assistance. Many of these firms, although established exporters, generally have very poor market planning skills. The strategic consultancy allows the KEDS team both to screen potential beneficiaries and to assist the firms in better targeting the use of their funds. KEDS assistance has resulted in several firms introducing new pre-pack horticultural products into the EU market.

Impact: Average annual growth in NTAE has reached 6 percent. As of November 1994, 2,814 firms (primarily medium-sized companies with some export experience) had been assisted. Foreign exchange earnings from manufacturing, horticulture, and other NTEs increased 25 percent from 1992 to 1993. Employment in NTAE firms increased 34 percent from 1990 to 1993. However, the original project objectives — creating one million jobs and $770 million in foreign exchange revenue — are unrealistic.

It is too early to assess the effectiveness of TA to associations (Kenya Association of Manufacturers, FPEAK, HCDA) in developing the export capabilities of their members, but a system for tracking activities such as trade show attendance, training, and distribution of publications has been put in place. Trade associations receiving KEDS assistance are now better able to coordinate their members' participation in international trade shows, resulting in an increase in the number of participating companies.

Conclusions: When the policy environment for business is right, projects like KEDS can be effective. KEDS's hands-on involvement with associations has been critical to helping them refocus their services. However, the process is often slowed by political factors. In general, MSEs do not have sufficient knowledge of market planning and budgeting to develop requests to KEDS for assistance and need help in this area. TA needs are great and therefore project efforts must be *focused* to achieve maximum impact. Also, potential clients must be rigorously screened to avoid wasting scarce resources.

4.2.2 Small Enterprise Professional Service Organization (SEPSO)

Sponsor: Friedrich Naumann Foundation (Germany)

Project Value: DM 300,000 per year (US$ 216,000)

Start Date: January 1993

Completion Date: 1998

Principal Objectives: Provide business services on a fee basis to a broad range of small enterprises; become self-supporting at the end of five years. Focus on young, innovative businesses.

Discussion: SEPSO provides business services to micro and small-scale enterprises; the most popular service is assistance with monthly accounting. SEPSO's plan to become financially self-sustaining within five years has caused it to move away from providing services to the smallest micro enterprises because they have a limited ability to pay for such services. A major challenge for SEPSO is developing its staff to stay ahead of client needs and retaining that staff once developed. SEPSO staff is 100 percent Kenyan.

Impact: SEPSO attempts to establish "partnerships" with its client firms, following up with them every month. SEPCO's main activity is financial consulting (accounting), which will hopefully generate broader-based consultancy work. SEPCO recovered 20 percent of costs in the first year and worked with 140 clients. Seminars and quarterly lunch meetings are found to be very useful by clients.

Conclusions: Clients demand sophisticated services, which means SEPSO must find, train, and retain skilled personnel. Smaller, startup clients have the greatest need for help, but they also have a limited ability to pay for services; SEPSO has had difficulty collecting from some of them. SEPSO itself, if it is to become self-sufficient, must be run like a business.

4.2.3 Kenya Management Assistance Program (K-MAP)

Sponsor: USAID, ODA, private sector firms

Project Value: $560,000 from USAID (1987-1992), £400,000 ($600,000) from ODA

Start Date: 1986

Completion Date: Indefinite

Principal Objectives: Reduce failure rate of Kenyan SMEs by providing one-on-one assistance from executives of larger Kenyan companies. Workshops and teaching materials are provided for a fee. Establish ongoing business linkages between large and small businesses.

Discussion: The objective of the K-MAP program, in which successful large and medium-sized Kenyan firms allow their top and middle management executives to provide counsel free of charge to small businesses that need management assistance, is to reduce the high mortality rate of small businesses, particularly startups. To date, however, K-MAP has been unable to generate more than 20 percent of its operating costs in revenues. Because management executives donate their time to counsel small firms the project *should be* a relatively low-cost method of assisting small businesses. According to the 1991 evaluation, the cost per registered client per year was KShs 5,068 (about US$100). K-MAP has strong management and strong support from the Kenya business community — both foreign and local.

Impact: 186 medium and large companies are providing executives for consulting with smaller companies. There have been no defaults on "sponsored" (reduced collateral) loans, to K-MAP clients. Unfortunately, a recent evaluation of the program was unable to determine if K-MAP's objective is being attained because client firms were not monitored for failure rate, sales, net assets, profits, or any other relevant impact indicators. One-on-one consulting is judged "the most valuable aspect of K-MAP assistance."

Conclusions: Management and training of counselors by K-MAP and reporting on their activities could be improved. Workshops are difficult to organize but are of great benefit when well done. Client involvement in the preliminary assistance proposal screening process, and in feasibility studies, is essential for giving the client a feeling of results "ownership." K-MAP has had difficulty getting clients to pay the full cost of services. The involvement of multinational company consultants in developing clients export marketing skills is important.

4.3 FINDINGS ON ASSOCIATIONS

Following are the main findings on each of the associations assessed.

4.3.1 Kenya Small Scale Farmers Association (KESSFA)

Sponsor: Hans Seidel Foundation (Germany)

Project Value: DM 250,000 per year (US$180,000)

Start Date: January 1993

Completion Date: January 1996

Principal Objectives: *Association Development:* Attract 2,000 members within 250-km radius of Nairobi; assist them to form viable self-help groups (SHGs), which in turn become members of KESSFA.

Non-Traditional Agricultural Export Development: Deliver TA to SHGs to increase production and marketing of horticultural products. Act as a principal in transporting and selling members' output.

Discussion: KESSFA is attempting to assist a select group of small-scale farmers to break into the European fresh vegetable export market. KESSFA operates through small, tightly knit SHGs of farmers, with the association's secretariat acting as intermediary between the producer SHGs and a few large exporters. KESSFA's success depends to a great extent upon the ability of the secretariat to act in a manner that guarantees the exporters receive the quality and quantity of product, and timeliness of delivery, that they require. This type of association offers the leverage needed by donors to reach smallholders and also to expand NTAEs. KESSFA's use of producer SHGs allows them to leverage their efforts. KESSFA's secretariat provides *extensive* training in NTAE production to SHG members.

Impact: As of September 1994, 104 SHGs with a total of 2,700 members had been created. Exporters advance seed to KESSFA, which in turn advances the seed to SHGs and deducts the cost from their marketed produce. Members have received 25-30 percent higher prices for green beans sold via KESSFA than they have received from brokers.

Conclusions: KESSFA needs to communicate better with potential SHG members so that they realize the benefits received from membership in KESSFA and are not tempted by "briefcase" exporters. Top-quality management and *effective member training services* has enabled this association to get off to a solid start. Diversification beyond green beans is needed.

4.3.2 Agribusiness Association of Kenya (AAK)

Sponsor: None as yet — seeking USAID assistance

Start Date: 1992

Principal Objectives: Facilitate networking between Kenyan agribusinesses, strengthen linkages between micro enterprises and large-scale producers and processors. The organization is not yet fully active.

Discussion: The AAK is currently composed of the 18 largest agribusiness firms in Kenya and is struggling to establish itself as a viable association that can meet the needs of a diverse membership. As of early 1995, they did not have a complete understanding of members' priority needs nor a detailed plan on how to respond to them. USAID's role in improving the likelihood that these capabilities will be achieved by AAK or by similar associations should include: (a) sponsoring a member needs survey at the time of association startup or in the early development stages, (b) helping the association develop programs to address members' priority needs, and (c) funding follow-up membership satisfaction surveys to determine how well the established priority needs are being met. Any linkage programs with agribusiness MSEs should wait until the AAK is fully functional.

Impact: Too early to evaluate

Conclusions: AAK members will be willing to pay dues and/or services fees sufficient to enable the association to become self-sustaining only if the association is effectively serving their *priority* needs. Even very large, well-financed agribusinesses have difficulty forming effective associations.

4.3.3 Fresh Produce Exporters Association of Kenya (FPEAK)

Sponsor: 30 percent of support from donors, including the KEDS Project ($30,000)

Start Date: 1975

Objectives: The collective representation of the fresh produce and floral industry in all matters related to potential government legislation and intervention. Providing services to members, such as information on new technologies.

Discussion: FPEAK was recently "re-cycled" under the strong tutorage of KEDS. A new, less factional board was elected and a new chief executive/consultant was hired. The new board is viewed as more representative of the whole membership; the new chief executive/consultant is British and has long experience in Kenya commercial horticulture. The election of a non-Kenyan to head FPEAK raised some eyebrows, but he was selected by the board from an extensive list of candidates. Ongoing issues with FPEAK are the allocation of responsibility for industry development between FPEAK and HCDA, a government-sponsored horticulture promotion agency, and the related question of cess proceeds allocation between the two organizations. Management must deal with a membership not yet aware of or educated as to the potential benefits from a trade association.

Impact: Too early to assess but there are positive indications, especially for FPEAK taking more responsibility for horticultural industry development.

Conclusions: An industry-specific association such as FPEAK can focus on meeting members' general needs; subcommittees for flowers and vegetables enable both to pursue their specialized needs. The new emphasis on market information, technical services, and financial information is now demand-driven. The market news service developed and financed by KEDS is of most value to medium and small firms.

4.4 FINDINGS ON DEVELOPMENT FINANCE ORGANIZATIONS

Following are the main findings on the development finance organizations assessed.

4.4.1 Kenya Trust for Private Enterprise (KTPE)[3]

Sponsor: USAID

Start Date: January 1988

Completion Date: December 1993

Objective: The objective of the KTPE project was to strengthen Kenyan institutional and human resource capabilities to assist firms via equity financing; 20-40 businesses were to be expanded and/or restructured and total investment, employment, output, foreign exchange generation and tax revenues increased. Industrial Promotion Services Ltd. (IPS), an existing company, and Kenya Equity Management (KEM), a new company, were the intermediaries for equity funds disbursement.

Discussion: Basically the market was not ready for and did not perceive the need to use venture capital. Kenyan firms typically operate with a very high debt-to-equity ratio and prefer financing via additional debt rather than sharing equity with others. Owners do not even want to share accurate financial information with potential partners. Inadequate market opportunity and venture assessment information and limited entrepreneurial capabilities result in a limited number of viable new ventures. Third party investors are rare due to the minimal "protection" available for their investment.

Impact: all but one (increased tax revenues) of the macro measurements for the project were met, but there is minimal evidence this was directly influenced by the project (i.e., the improvements were mostly due to other influence).

Conclusions: KTPE's overall goals were unrealistic, even for fully developed venture capital markets such as those in the United States. There is considerable question whether the *venture capital* (versus merchant banking) managerial resources at IPC or KEM were sufficient for the task at hand. Furthermore, it appears that USAID program designers and implementation managers had an insufficient understanding of venture capital in embryonic markets.

4.5 FINDINGS ON PRIVATE AGRIBUSINESS FIRMS

Following are the main findings on the private agribusiness firms assessed.

4.5.1 Karzan Inc.

Karzan Inc. is a medium-sized flower exporter with a good export market. The shift in the EC market to direct (vs. auction) sales has forced Karzan to focus heavily on meeting quality requirements. They work with three categories of suppliers: small independent outgrowers, commercial growers, and the company's own production. The 110 outgrowers (0.5 to 2.5 ha each) receive fertilizer and planting materials and have their flowers picked up at the farm. Commercial growers are larger and have their own cold stores and means of delivery. Karzan markets flowers in Europe through a Dutch agent. Business growth will be primarily in joint ventures with commercial growers due to the cost of working with many small growers.

4.5.2 Lonrho

Lonrho is a large diversified agribusiness with more than 4,000 employees, featuring extensive vertical integration. It is one of Kenya's largest producers of timber products, seed maize, waddle extract, mushrooms, milk, cattle, pigs, poultry, as well as pork and beef products. It obtains 50 percent of its meat from its own farms and 50 percent from independent farmers. The company also has the largest refrigerated food distribution system in Kenya-Farmers Choice Foods.

4.5.3 Standard Charter Estate Management (SCEM)

SCEM, owned by Standard Charter Bank, manages production acreage for larger owners, cooperatives, and farming companies. This includes more than 277,000 acres producing coffee, tea, sisal, sugar, wheat, mixed farming, horticulture, and cattle ranching.

4.5.4 Echuka Farms

Echuka Farms is a diversified farming and processing operation producing yogurt, jams and jellies, fresh vegetables, and fresh herbs. It is owned and managed by a dynamic female entrepreneur, Mrs. Chege. Echuka Farms is a testimony to the drive and entrepreneurial capabilities of Mrs. Chege. However, it seems likely that the very wide variety of businesses she is developing and their small scale will make it difficult for this enterprise to expand to the next size level. As in the case of most SMEs, financing is a severe limitation to the growth of the business and new "kitchen scale" businesses have been started when significant capital is required to expand an existing business. But unlike most SMEs, Mrs. Chege's unique personality and capabilities have enabled her to find good local markets for nearly all her production. Lonhro (Farmers Choice) distributes Echuka's yogurt and other refrigerated products.

4.6 LESSONS LEARNED AND IMPLICATIONS FOR USAID PLANNING

In the following sections, "Lessons Learned" and "Implications for USAID Planning" derived from the analyses in sections 4.2 to 4.5 above are presented. The order in which they are presented is roughly in order of (1) the anticipated positive impact on USAID objectives and operations if they were to be successfully adopted, and (2) the extent to which the lessons learned or implication is broadly applicable, that is, applicable to SSA agribusiness projects in general. This ordering is subjective, but represents the studied opinion of the research analysts and draws upon their many years of experience in agribusiness development in developing countries. The *primary* source of the lessons learned or implication is shown in parentheses.

4.6.1 Non-Traditional Agricultural Export Development

Lessons Learned

- Most NTAE research and extension input must be project or exporter (versus government) supplied. Exporters can usually only afford to supply technical assistance to the *larger* outgrowers. (KEDS)
- The higher the value added the more difficult it is for MSE participation in NTAE, but the greater the market and margin opportunity. Products that are easier to produce most often yield lower margins, which then require larger minimum size operations. Therefore, there is an inconsistency between direct participation by MSEs in NTAE and their financial and managerial capabilities. (AAK/KEDS)
- Much of the market information assistance and technical assistance must be imported because there is little in-country experience. (KEDS/KESSFA)
- The quality of Kenya's product (especially with respect to residual pesticide levels) and limited reliability of air cargo space are the major problems perceived by the EU, *the market.* (KEDS)
- For flowers, going direct to wholesalers avoids the quotas imposed by the Dutch auction, but requires strong EU partnership(s) and quality control. (KEDS)
- Exporter cooperation (e.g., in associations) must be carefully managed due to competitive (cartel possibility) considerations (i.e., exporter involvement could lead to a monopolistic situation). (KEDS)
- The uncertainty of Kenya Air Freight Handling's expediting of export cargo is a substantial problem, yet effective and efficient air freight handling is crucial to the quality and timeliness of perishable exports. (KEDS)
- An adequate water supply is essential to fringe season NTAE; therefore, Kenya's water availability problems may limit continued NTAE expansion. (KEDS)
- Adequate physical infrastructure is essential to cost-competitive and high-quality NTAE products, yet Kenya's infrastructure is deteriorating, especially rail and road to Mombasa, and port management and power supply consistency are poor. (All)

Implications

- The greatest economic impact from NTAE project assistance will be derived from activities focused on experienced, established, medium-sized (50 100 employees) firms. (KEDS)
- Project staff must have direct export commercial experience to be of significant help to exporters. (KEDS/KESSFA)
- More private/public/donor dialogue is required, especially in the project design stage, to avoid suboptimal designs that must be corrected when applied to the real world. (KEDS)
- More emphasis is needed on processed products for export as a way to deal with high air freight costs and space shortage, and to utilize lesser grade product. (KEDS)
- Sectoral workshops are more expensive and more difficult to organize than general workshops, but their impact can be much greater. (K-MAP)
- Recipient matching (50 percent suggested) is important for donor grant effectiveness. Significant marketing TA must accompany grants (especially to MSEs) if they are to be effectively utilized. (KEDS)
- Extensive vertical integration (or at least coordination) is needed for cost, timing and quality competitiveness of high-value exports. (Lonrho)

4.6.2 Association Development

Lessons Learned

- Institutions or associations are only as effective as their management personnel. Increasing management/leadership skills through training is only effective to the extent that trained individuals remain with the organization. Developing and retaining key project and association personnel are challenging tasks. (All)

- Associations can be a good, leveraged way to provide TA for NTAE, especially to MSEs. (KEDS)
- Associations that do not respond to member needs will not be successful and will not become financially self-sustaining. Therefore, membership satisfaction surveys should be conducted annually. (All)
- To enhance "voice," more members are needed, even if this means combining subsectors such as flower, fruit, and vegetable exporters. For effective TA, a relatively narrow range of subsectors, types and sizes of firms/members is needed. (KEDS/AAK/KESSFA)
- Balancing the role of a "driving force" (senior executive) within an association is difficult. A strong leader is needed, but the leaders must not manage the association primarily for their personal benefit. (AAK/KESSFA)
- The cooperative structure is much more regulated and influenced by the Kenyan government than is that of an association. Commercial associations need to be organized as corporations, not as cooperatives, due to the "baggage" (political problems) cooperatives carry in Kenya and the more pragmatic orientation of a corporate structure. (KEDS/KESSFA)
- Associations must remain focused on commercial (vs. political) issues. (KESSFA)
- "Social" problems (e.g., ethnic tension, cliques, poor cooperation) seem more prevalent at the MSE association level. SHGs, on the other hand, are more culturally homogeneous and work together more efficiently. (SCEM/KEDS/KESSFA)
- Poor "real" price information can cause problems for association marketing efforts because members become disenchanted with the price they receive from the association for their produce. (KESSFA/SCEM)
- Too many micro participants in a commercial association can cause accounting cost problems (i.e., many small accounts with a high maintenance cost versus the value of the transactions). (KESSFA/SCEM/SEPSO)
- Tribal chiefs still play a significant role in gaining support for rural associations. (KEDS)
- Consistent collection and equitable distribution of exporter cess payments is needed to achieve and retain credibility for cess payments as an industry development mechanism. (KEDS)

Implications

- The basis for association sustenance does not seem to be well understood by current USAID managers. (AAK)
- There does not seem to be an objective mechanism available for assessing membership satisfaction. (AAK/KEDS)
- Mechanisms for determining the most viable and sustainable associations can and should be developed. A good association "needs assessment methodology" is required in order to be able to address priority needs, establish model associations, devise association performance measurements, and develop sources of financial support. (All)
- A fully integrated commercial association may be the most viable MSE producer exporter linkage. (KESSFA)
- Donors can help associations focus (or refocus) their efforts during the critical early years. (KEDS)
- SHGs as members of an association may be the most cost-effective way to serve the needs of small producers and enterprises. They can provide double leveraging when they are association members, especially MSEs. (KEDS/KESSFA)
- Associations must have political independence, from both the government and from politically motivated power brokers. (KESSFA)
- Technical support from donors, and possibly alliances with relevant associations in other countries, is very useful for associations involved with exports because it is difficult for them to obtain information from outside the country. (KESSFA)
- Do not specify in the design the associations that a project must work with; allow flexibility to support those with the most potential and who are the most cooperative. (KEDS)

- Potential and current member education programs are important to help differentiate associations from cooperatives. (KESSFA)

4.6.3 Small and Medium Enterprise Development

Lessons Learned

- SME linkages with large enterprises, and SME SHGs, can make a significant contribution toward SME development if these undertakings are accompanied *with close management* of the process. (K-MAP/KESSFA)
- Legal constraints are being streamlined, but illegal constraints are still rampant, and SMEs are the most vulnerable to the latter. (KESSFA)
- A shortage of capital and TA, especially as related to marketing, are the major limitations for SME participation in NTAE. SHGs can help overcome these limitations, especially in tandem with well-managed associations. The largest SME operating constraints on SMEs are usually related to marketing. (KESSFA/KEDS)
- The MSE dropout rate is very high due to lack of financing, collateral, and management expertise. (SEPSO)
- Organizational integrity and *key individuals'* integrity is very important to help maintain a positive attitude on the part of beneficiary SMEs. (KESSFA/K-MAP/AAK)
- Building and *retaining* local capacity within an SME support project *ahead* of clients' needs is challenging. (SEPSO)
- MSEs have a minimal knowledge of sources for financial assistance and how to apply for it. (SEPSO)
- Agribusiness SMEs' *basic* development, support, and service needs are very similar to those of firms in other sectors. (SEPSO/K-MAP).

Implications for USAID Planning

- *Leveraging* expensive USAID and/or other project's SME development resources is a major challenge; SHGs and associations can be very useful to help accomplish this. (KESSFA/KEDS)
- Ongoing and hands-on (high direct involvement) services are very important to SMEs. (KESSFA/SEPSO)
- It is difficult to maintain a very commercial orientation at the micro level; that is, many enterprises that want help will never be able to pay for the needed services. (KESSFA/SEPSO/KEDS/K-MAP)
- "Investing" in startups is *very high* risk due to their high failure rate. Avoid "investing in dreams." (SEPSO)
- Direct SME assistance should be primarily focused on local or regional (vs. developed country) markets because their requirements are less strict than those of developed country markets and they are vastly larger (up to 60 times the size of export markets). (KEDS)
- Successful MSE marketing services must be *highly* focused, probably even niche-market oriented. (SEPSO)

4.6.4 Financial Services

Lessons Learned

- Sources of finance and how to access them are not well known by MSEs, a significant barrier to their growth and development. (K-MAP/AAK/SEPSO)
- Money without TA to effectively use it is often not repaid. Therefore, financial services projects need to include or identify sources of effective TA for their clients. (K-MAP)
- For MSEs, the major constraint is lack of working capital; therefore, MSE credit activities must focus on obtaining working capital. (SEPSO)
- The difference between a grant and a loan is unclear at the MSE level. Therefore, communications with the borrower must be very clear on repayment expectations. (KEDS)
- Matching an earnings stream from a financed activity to the funds needed for loan repayment is difficult for MSE management/owners. Loan repayment is often achieved via de-capitalization.

Special care must be taken to help lenders set aside funds from the earnings stream of the project being financed to repay the loan. However, loan repayment can not be the only criterion to measure the success of an MSE financial services project. (KEDS)

Implications

- Design and management of financial projects must be carried out by finance professionals because the principles involved are often not well understood by USAID managers. (KTPE)
- Detailed screening of financing applications by *business* (vs. loan officer) professionals *can* enable lower collateral requirements. Experienced business operations managers are needed to go beyond profit and loss and balance sheet analysis. (K-MAP)
- Success of financing projects will likely require multi donor/agency cooperation, given the substantial resources required for a minimum size entity. Cooperation between USAID and IFC/WB or other financially oriented agencies such as CDC will increase the chance of project success, but will also raise project complexity. (KTPE)

4.6.5 Monitoring and Evaluation

Lessons Learned

- Progress toward financial self-sustainability and the level of membership satisfaction should be the primary association performance measurements monitored. (SEPSO/K-MAP/AAK)
- Monitoring and evaluation by donors other than USAID is generally quite weak, especially quantitative measurement. (All)
- Much more direct *beneficiary*-level evaluation and polling is needed. (KEDS)
- The original KEDS goals seem unrealistic. (KEDS)
- One of the main commercial association performance measurements should be the net price a producer receives when selling via the association versus selling through buying agents. (KESSFA)

Implications

- The main focus of performance measurement should be on the progress or success of assisted firms, not on macroeconomic statistics, because it is very difficult within the comparatively short time-frame of a project to *directly* affect macro measurements. (KEDS)
- All projects need more breakdowns by type of beneficiary (e.g., clients served, cost of efforts, and output increase) and *by size of firm*. (KEDS)
- More client (exporters, GOK, USAID manager) satisfaction assessment (qualitative) is needed as a part of project M&E. (KEDS)
- A key assessment that needs to be completed before project initiation is the amount a subsector must grow to achieve a reasonable payback on the resources invested into that subsector. For example, how much does the $64 million horticultural exports industry have to grow to get a satisfactory payback on the $15 million KEDS project? (KEDS)
- Quality, coverage, timeliness, and pragmatism of quarterly project reports, including an M&E matrix by project component, needs improvement. (KEDS as *positive* example)
- Better and more specific *sources* and uses of funds projections is needed for entities and projects seeking support. (AAK)
- More focus on a project's value (vs. tonnage) increase is needed for NTAE, especially the amount of in-country value added as the result of a project. (KEDS)
- Review project objectives at least annually to determine if adjustments are necessary. (KEDS)

4.6.6 General Recommendations

The following general recommendations based on Kenya research do not fit under previous headings.

- Ongoing (at least annual) formal Operations Constraint Analysis (OCA) for firms targeted for assistance will provide essential information for all commercial projects. (KEDS)
- Identifying and developing an effective *interme-*

diary is important for leveraging scarce project resources. (KESSFA/KEDS)

- Government approval and support are needed, but project implementation must be independent. (All)
- Projects must remain limited in scope until the staff is well trained and organized. (SEPSO)
- Local contractors and employees can be very helpful *if* they are properly selected, trained, and managed. (All)
- Develop local hire parallel positions for all key project personnel. (K-MAP/SEPSO/KESSFA/AAK)
- Cooperatively funded and managed donor projects are difficult to coordinate, so multidonor support is most viable for established, well-managed projects. (K-MAP)
- There is a need for *highly focused* training and experience transfer at all levels and for all projects. (KEDS/K-MAP/KESSFA)
- More USAID/embassy dialogue regarding optimizing project's success is needed. (KEDS)

4.6.7 Key Issues Deserving Further Study

Following are issues that have surfaced in the course of the research and analysis in Kenya and that deserve further study.

- What is the best way to minimize "briefcase" exporters' negative impact on contract growers and association members? (KEDS/KESSFA)
- Should projects have a greater focus on local and regional markets? (KEDS)
- What are the comparative results (especially when considering the full multiplier effects of support for mega and large agribusiness firms) of projects supporting mega, large, medium, small, and micro enterprises? (KEDS)
- Are there effective ways to eliminate corruption and inefficiency among customs officials? (All)
- How can project advisory boards be made more active and effective? (KEDS)
- Is the optimal association broadly based so that it can include a large number of people and therefore have greater "voice," or narrowly focused so that it can serve the product-specific needs of its members? (All)
- What is the best way to identify and develop project mentors at both the USAID and local government levels? (KEDS)
- When in a project's life should the initiating sponsor look for multidonor support? (KESSFA)
- Should/can MSE support institutions ever become self-financing? (SEPSO)
- For highly effective NTAE development, is supporting larger firms the best, or maybe only, way to achieve quantitative results and returns on resources objectives? (KEDS)
- To what extent do significant NTAE participants and their advisors understand market channel proportionality, trends/dynamics, and projections? (KEDS/KESSF/AAK)
- How can responsibilities be most effectively balanced and/or allocated between semi-government and private sector entities interested in agribusiness development; for example, HCDA and FPEAK? (KEDS)
- What is the best way to effectively communicate the essential agribusiness skills needed by the private sector to agricultural and business schools? (All)
- Who should help embryonic businesses (especially micros), given that they represent the highest risk and the lowest return on resources? (All)
- Should project staff primarily manage or should they provide services themselves? (K-MAP)
- Is the statement in the KEDS project document that 75 percent of Kenya's export fruits, flowers, and vegetables is produced by smallholders even *near* the "ball park"? (KEDS)

5. Uganda Overview and Analysis

5.1 ENTITIES SELECTED FOR STUDY

For the Uganda portion of the study, the consultants assessed the performance of thirteen innovative projects, associations, development finance organizations, and private enterprises concerned with agribusiness development. These case studies, together with the donor agencies supporting them (in parenthesis), are as follows:

Projects:

ANEPP – Agricultural Non-Traditional Export Promotion Program (USAID)

CAAS – Cooperative Agriculture and Agribusiness Support Project (USAID)

Silk Sector Development Project (European Union [EU])

Associations:

UOSPA – Uganda Oilseed Processors Association (USAID)

UNFA – Uganda National Farmers Association (Danish International Development Agency [DANIDA])

UVGPA – Uganda Vanilla Growers and Processors Association (USAID)

UMA – Uganda Manufacturers Association (USAID)

UGEA – Uganda Grain Exporters Association (no sponsor)

UHA – Uganda Horticultural Association (no sponsor)

Development Finance Organizations:

DFCU – Development Finance Corporation of Uganda (International Finance Corp. [IFC], Overseas Development Authority [ODA], German aid program [DEG])

APDF – Africa Project Development Facility (International Finance Corp. [IFC])

VOCA – Volunteers in Overseas Cooperative Assistance (USAID)

Private Enterprises:

Ronco Pyrethrum Project (no donor support)

Ziwa – Ziwa Horticultural Exporters Ltd. (some USAID support)

Harriet's Flowers (some ANEPP/USAID support)

As in Kenya, many of the Ugandan projects and associations have multiple areas of focus (see Table 5.1). The consultants' assessment of their performance examined these focus areas separately. Performance with respect to provision of financial services and monitoring and evaluation were assessed where appropriate.

Summary assessments of each of the eleven case studies appear in the following section and form the basis for the conclusions presented in section 5.6. Cross-cutting lessons learned from the eleven case studies, and implications for USAID agribusiness project planning and implementation, are summarized under each of the five areas of focus (i.e., NTAE Promotion, Association Development, SME Development, Financial Services, and Monitoring and Evaluation).

5.2 FINDINGS ON PROJECT

Summarized findings with respect to three projects — ANEPP, CAAS, and Silk Sector Development Projects — appear in the following sections. Detailed assessments of these projects, matrixed according to the key questions, are presented in Appendix A.

5.2.1 Agricultural Non-Traditional Export Promotion Project (ANEPP)

Sponsor: USAID

Project Value: $13.5 million in NPA in 1992 + $10 million of Title III–locally generated currency

Table 5.1 Uganda Supported Activities and Their Areas of Focus

Association/Project (Donor)	Non-Traditional Export Promotion	Association Development	Small & Medium Size Enterprise Development
ANEPP (USAID)	Yes	Yes	No
CAAS (USAID)	Yes	Yes	Some
Oilseed Processors Association (USAID)	No	Yes	Yes
National Farmers Associaton (DANIDA)	No	Yes	No
Yanilla Growers and Pocessors Association (USAID)	Yes	Yes	No
Uganda Manufacturers Association USAID)	No	Yes	Some
Silk Sector Development Project	Yes	Yes	No
	Yes	No	No
DFCU (IFC/ODA/EG)			
	Yes	No	Some
APDF Uganda (IFC/USAID)			
	Yes	No	No
Ziwa (some USAID)	Yes	Yes	Yes

Start Date: 1992

Completion Date: October 1994

Principal Objectives:

Association Development: Originally, TA was intended to identify and then work with an association, but this was modified due to the immature nature of existing associations. The follow-up project initiated in 1995 (IDEA) will further pursue association development.

NTAE Development: Increase export earnings and employment, identify new export opportunities, provide TA to exporters, and provide market information.

Discussion: ANEPP is an example of a project aimed at expansion of NTAEs through assistance to medium-to large-scale firms that are just starting to export. Like KEDS in Kenya, ANEPP has not assisted small firms; but unlike KEDS, which is dealing with established exporters, ANEPP's most recent phase[4] has attempted to assist Ugandan firms in breaking into new export markets, such as cut flowers to Europe. One of the challenges in Uganda is to establish a critical mass of reputable exporters in order to overcome Uganda's bad reputation in European horticultural markets, which was established during the first few years of attempts by inexperienced firms to export products that were often of substandard quality and unreliable delivery. USAID/ANEPP's Operational Constraints Analysis Project (OCAP), undertaken in conjunction with the ANEPP-supported Export Analysis and Development Unit (EPADU) and VOCA (Volunteers in Cooperative Assistance), is innovative in the sense that it not only assesses individual firm's operational constraints for NTAEs, but also follows through with assistance to specific firms to help them to overcome these constraints. OCAP was successful in helping Ugandan exporters break into new export markets (e.g., crocodile skins and vanilla), increase post-harvest value-added activities (e.g., silk processing), and establish several new successful horticultural exporters to Europe (e.g., cut flowers). In the process of providing direct assistance to exporters, EPADU project managers gained an improved understanding of the most critical constraints facing agribusinesses in Uganda. This enabled a more in-depth understanding of the specific policy modifications needed and allows EPADU staff to be more forceful and credible advocates of policy enhancement. It also gave USAID a better focus for the follow-up project to ANEPP: IDEA.

Impact: The value of all horticultural exports increased from $410,000 in 1991/92 to $3.25 million in 1993/94, and may reach $8.4 million in 1995. Large firms are doing well. With ANEPP help, they have overcome many production and marketing constraints over the past two years and have identified new opportunities. Import substitution of packaging materials and airport cold store assistance were significant project-stimulated benefits, as was assistance in crop variety adaptation work. ANEPP identified high-potential NTAE areas — flowers, spices, asparagus, and leather leaf, plus regional markets for maize and beans — and assisted with crop trials as well as helped overcome marketing constraints faced by exporters of these crops. As to policies, EPADU personnel provided valuable help in improving the enabling environment.

Conclusions: Subsector market opportunity studies were important for focusing project resources on high-potential areas. Projects dealing with agricultural exports need a high degree of flexibility to be able to respond quickly to changing market conditions. It proved to be better to focus assistance on a limited number of the larger exporting firms. To achieve an acceptable return on project resources, however, significant capital and management expertise needed to be in place in these firms. Intensive direct TA to small and micro enterprises is not a good use of resources due to the inefficiency of direct support to these enterprises. Also, their dropout rate is very high and the increase in exports that can be achieved in the short to intermediate term is less than can be achieved for support to medium-sized experienced exporters. Better project reporting is needed, especially that which links specific activities to data on increased NTAE exports. OCA activities need to be ongoing and annually updated. NTAE technical assistance is heavily dependent upon the skills and capabilities of the expatriate consultant(s). Direct OCA experience is *very* useful to help policy analysts understand in-depth the needed policy enhancement.

Associations cannot be imposed on groups of exporters, demand for the creation of an association must come from the exporters themselves. Otherwise, they will neither participate in nor support the association. Embryonic subsectors will not support viable associations because there are too few potential members, they do not understand their support needs well enough, and they are not deriving sufficient sales and earnings from the business to financially support an association.

5.2.2 Cooperative Agriculture and Agribusiness Support Project (CAAS)

Sponsor: USAID

Project Value: $10 million

Start Date: 1991

Completion Date: October 1994

Principal Objectives:

Association Development: Provide support to the oilseed processors association (UOSPA) to increase domestic production and reduce imports. Create a department within UCA (Uganda Cooperative Association) to export coffee on behalf of coffee cooperatives.

Non-Traditional Agriculture Export Development: Revitalize the edible oil industry, work with newly industrialized coffee cooperatives now licensed to directly export coffee.

Discussion: The most recent phase of CAAS refocused efforts on providing direct assistance to specific agribusinesses for the production and export of specific commodities. Assistance was provided to a limited number of district unions and primary societies that were believed to have the potential to improve coffee marketing, increase the production of edible oil for domestic consumption, and increase NTAEs. Unfortunately, due to inherent weaknesses in most cooperatives in Uganda, CAAS has not been successful in creating viable cooperative institutions, nor in establishing the appropriate role of cooperatives as agribusinesses or as providers of services to farmers. The original project assumption was that low crop production was due to low use of inputs, so the project focused on improving input delivery to farmers. It turned out that the problem was not input availability, but that returns to the farmer from the use of inputs were too low to justify their cost. (See Erickson and Poulin, February 1994.)

Impact: After redesign in 1991, CAAS increased the capacity of selected cooperatives to produce and process sunflowers, and helped make other cooperatives more knowledgeable about producing and marketing NTAEs. However, only 5 percent of cooperative members were affected by the project.

Export diversification work was started successfully with the first exports of snow peas. About 4,000 tons of edible oil were produced in 1994 with the help of matching grants given to 296 societies. The coffee marketing board was privatized, and private sector dialogue with the government has increased. A market price information system installed by the project seems to be well received by members.

Conclusions: Before undertaking a project to provide support to and through an entity, assess the mid-to long-term viability of that entity, in this case the cooperatives. When members of associations matched donors' grants with their own funds, the likelihood of project success increased significantly. Good management is essential to cooperative or association success, especially as related to its ability to adjust to changing conditions. Where cooperatives are weak, associations that group producers and processors are a viable alternative.

5.2.3 Silk Sector Development Project

Sponsor: European Union (EU)

Project Value: ECU 2.2 million (US$2.95 million)

Start Date: January 1994

Completion Date: 1996/1997

Principal Objectives: Strengthen the Uganda Silk Producers Association (USPA), an integrated producer–processor organization. Create a project directorate that the association will take over at the end of two years. Bring about a sustainable increase in silk exports and smallholder incomes through a credit/extension services package. Change USPA from an exporter-led association to a more producer-oriented, or at least balanced, organization. Make the association self-supporting in three years.

Discussion: The Silk Sector Development Project is supported by the European Union, but the sector has also received assistance from USAID through EPADU for the creation of a Silk Producers Association. This is an example of NTAE development and assistance to small farmers, because the silk is produced by many small outgrowers. It is also an interesting example of an integrated association; that is, an association with members that include both producers and exporters. A Japanese silk company supplies the silk worm eggs and buys the dried silk cocoons.

There is good potential for increased value-added at the farm level (e.g., outgrowers will be drying cocoons themselves in the silk development centers being constructed) because the EU plans to work with NGOs and women's groups to do cocoon unwinding and silk weaving. Producers should benefit more from the new association than they did from original exporter-led association. The USPA could become the driving force in the industry, providing significant inputs and financing to growers, but there may be friction between processor/exporter members and grower members. There is no clear plan to make the association self-financing, and the two-year phaseover of significant services from external (EU) to association management seems overly optimistic.

Impact: Membership originally consisted of two exporters so the project insisted on opening membership to producers. There are now 400 farmer members and one or two new exporter members.

Conclusions: Association management must be strong and must remain focused on a limited number of objectives. There must be a clear plan on how to make the association self-supporting. MSE participation in NTAEs can be successful where the industry is highly labor intensive and not capital intensive and there is a specialized, niche market for the product. This is true of silk production. An integrated produce–exporter association may be the answer to working with a product as complex as silk production and export. The industry also lends itself well to intensive hands-on TA. Developing new export businesses is much easier with the significant technical and marketing assistance of an *international* firm.

5.3 FINDINGS ON ASSOCIATIONS

Following are the key findings on the associations reviewed in Uganda**.**

5.3.1 Uganda Oilseed Processors Association (UOSPA)

Sponsor: USAID

Project Value: $115,000 for first two years (grant through CAAS project)

Start Date: Association registered April 1994

Objectives: Ensure availability of high-quality planting material via seed multiplication programs; secure working capital credit for members to purchase raw material (oil seeds); offer extension advice to oilseed growers; provide members with oilseed milling technical training; assist members to find spare parts; and market their output.

Discussion: The Oilseed Processors Association is made up of SME oilseed processors. They are predominantly marginally viable crushers who are caught between a limited supply of raw material and a market heavily influenced by donor sales/donations, large competitor conversion of non–food grade oil to food grade, and the major (the largest crusher produces 70 percent of output) crusher. These entrepreneurs have limited mill management experience. They are receiving some TA from CAAS/VOCA experts and the association is trying to arrange for working capital financing for its members. Adequate raw material supply and spare parts are two other major problems for these businesses.

Given the importance of vegetable oil import substitution (to offset the foreign exchange drain it causes) and the number of farmers that would be affected by a viable domestic oilseed production and crushing industry, a greater focus on the industry seems called for. However, are SME crushers the best (all factors considered) leverage point? Is it likely that domestically produced vegetable oil will ever become competitive with world market prices using oilseeds grown by small farmers and crushed by SME processors, except in the highest transport cost locations? Where will the capital come from for economy of scale crude production and refining facilities?

This new association, with members from all regions of the country, has the potential to increase its members oilseed production. If the association is successful in helping members address and overcome their operational constraints, there should be a considerable increase in vegetable oil production. The association may be able to arrange access to working capital for members, but there is little funding for TA to mill operators, most of whom are small. Plans for multiplication of improved oil seeds are sketchy. While support of UOSPA may benefit a few of the more viable medium-sized crushers, it seems unlikely that it will have a significant impact on offsetting vegetable oil imports and will have considerable difficulty becoming self-sustaining.

Impact: Too early to assess.

Conclusions: The best hope for these SMEs to survive is a strong association. However, very strong and effective management and years of donor support will likely be required for the most viable of the crushers to become successful. Some of the crushers should investigate and develop specialty markets to shield themselves from commodity imports. Others, with the association's help, should consider forming consortia and consolidate their operations into the best facility, use others' equipment for spare parts, and focus on sourcing raw material and marketing.

With their consolidated volume, they could afford to hire qualified technical, financial, and managerial personnel.

5.3.2 Uganda National Farmers Association (UNFA)

Sponsor: DANIDA

Project Value: $4 million for first 5 years

Start Date: September 1993

Completion Date: 1998

Objectives: To raise the living standards of Ugandan farmers through enhanced "voice," and the provision of financial and technical assistance. To become the premier agricultural organization in Uganda.

Discussion: The Uganda National Farmers Association is an example of an extremely broad-based association with an ambitious agenda. It is attempting to replace the government extension service with a private countrywide extension service, financed by donors initially, but eventually by the members themselves. However, there is some question as to whether the underlying objective of the UNFA leadership is political or developmental.

UNFA is structured as a "bottom-up," farmer-driven organization based on subassociations. It now manages extension services in 15 of the 39 districts of Uganda. Each district will identify two or three high-value crops to focus on. Market prices from 39 districts and information on recommended suppliers are two important services.

Impact: Too early to assess.

Lessons Learned: The UNFA suffers from a lack of focus and overambitious objectives. It is not clear how the association will generate sufficient revenues to become self-sustaining. The founders are very politically motivated and in fact the regional association coordinator will work under a regional government appointee. A key issue is whether the government extension service will allow itself to be taken over by the UNFA.

5.3.3 Uganda Vanilla Growers and Processors Association (UVGPA)

Sponsor: Some support from USAID and APDF

Project Value: USAID contributed $36,000 in extension services over last 3 years

Start Date: Association in the process of being formed

Principal Objectives: To increase production and export of vanilla.

Discussion: This association is in the process of being formed; until recently it existed in the form of one vanilla producers group (around 2,000 members) and one vanilla producers cooperative (2,000 members) working with two vanilla exporters. The association will have a strong voice on policy matters influencing the vanilla industry and make it easier for donors and government to assist the industry through one association. However, it must become member-driven, most likely more by the exporters (who want continued donor funding) than by the growers. Vanilla production technology and marketing is provided by McCormick.

Impact: Too early to assess.

Conclusions: The strong role of exporters will make it easier to ensure Uganda's reputation for reliable, high-quality vanilla, and the association is more likely to become self-sustaining (and be able to pay for field technical staff). However, exporters' objectives will at times conflict with farmers' objectives, and the integrated structure may weaken farmers' bargaining strength vis-à-vis exporters. In fact, the percentage of export value received by the farmers appears low at this time. Success of the association will require hands-on support and balanced management by the main entrepreneur (Mr. Sekalala of UVAN), who has been the driving force in industry and association producer and exporter interest development. *New* local NTAE industries require the strong support of an *international* firm.

5.3.4 Uganda Manufacturers Association

Sponsor: USAID

Project Value: $250,000 in 1995

Objectives: Build Ugandan industry. Increase human resources capacity regarding business. Promote, protect, and coordinate the interests of industrialists; act as a watchdog and mouthpiece for members; initiate and facilitate discussions and exchange information among members on issues of concern; advise government on key policies affecting the industry.

Discussion: This 400-member organization was formed in 1966, but did not become seriously active until 1988. Agribusiness firms are an important part of its membership, though the organization represents many types of industries. There are two distinguishing characteristics of UMA: strong leadership and a highly professional consulting unit. The membership represents the "cream" of Ugandan manufacturers, and thus it can identify, attract, and compensate top management/leadership and consultants. Association leadership has an interest in SMEs because they believe SME success is crucial to the development of the Uganda business environment. USAID has worked with the UMA by funding the consulting unit and its work on SME projects.

Impact: The USAID-supported consulting and SME activities are quite recent but appear to be off to a solid start.

Conclusions: UMA is likely to play a strong leadership role in developing Uganda agribusiness, but will need incentives to maintain an SME focus for part of their efforts. It can be very effective for stimulating policy change and stabilizing improvements that have already been made, given its political access and influence. This is an important role because some public sector institutions remain skeptical of an emerging private sector. UMA needs funding to train staff and members. Its consultancy and SME development activities are still heavily financed by USAID.

5.3.5 Uganda Grain Exporters Association

Discussion: Association membership is reserved for exporters shipping at least $500,000 of grain annually. Initially there were 24 members, but there are fewer now due to the non-viability of the grain export business, which was caused by fluctuating exchange rates (especially an appreciating Uganda Shilling), deteriorating seed (and therefore product) quality, and high working capital costs. It seems likely that the UGEA will continue to flounder until the grain export business becomes more viable, primarily via the use of improved seed/cultural practices and consistent adherence to an agreement between Kenya and Uganda regarding grain trade.

Impact: The association is currently inactive so its impact is minimal.

Conclusions: The regional grain export business is heavily influenced by politics and government officials' personal benefit–based decisions. As a result, predictability of grain prices and access to the Kenya export market are very difficult. The grain export business needs more support on seed quality improvement and extension services in order to increase the quality and productivity of grain output. The "voice" of the UGEA would be enhanced by a broader membership, but this should not dilute the interest and impact of the larger exporters. One way to achieve this would be to form an exporters *and* growers subassociation in a geographic area that has high production potential. This would function as a demonstration/model of how producers, agricultural R&D, the extension service, and exporters could cooperate on an export market–focused project.

5.3.6 Uganda Horticultural Association

Discussion: The association, which has 80 members, of which only 20 are exporting, has undergone several changes in recent years. For example, flower exporting members left the association because they felt that their specialized needs were not taken into account; also there was "jockeying" for power at the management level. Currently, the membership consists of fruit, vegetable, and spice exporting companies. The leadership of the association is now working on forming a larger association with horticultural, flower, and grain companies organized into three divisions. Members are generally in favor of this because a larger organization can financially support an adequate secretariat. Most members' problems are in marketing, not in production.

The concept of an NTAE association that includes the horticultural, grain, and floriculture associations with divisions or subassociations focused on specific subsectors would seem to resolve the "numbers for voice versus focus for services" dilemma. The question of vertical integration (producers, processors, and exporters) versus horizontal membership has not been addressed. Bringing together the horticultural and grain exporters may not be that difficult because they are both struggling, but they do have very different markets and service needs. Floriculture is very bimodal; that is, there are 2–3 large integrated exporters and many very small growers. Their very different needs (often based on flower type and target market) make it difficult for them to join with others.

Impact: Minimal because it is currently undergoing organization/reorganization

Conclusions: The leadership of the UHA believes that an NTAE association can be successful if it focuses on common membership needs and avoids political considerations (i.e., power struggles at the management level). Very strong leadership would be required for such an NTAE association to be successful.

5.4 FINDINGS ON DEVELOPMENT FINANCING AND TECHNICAL ASSISTANCE ORGANIZATIONS

The following profiles development finance and technical assistance organizations in Uganda.

5.4.1 Development Finance Corporation of Uganda (DFCU)

Sponsor: Shares are held by Uganda Development Corp. (UDC), Commonwealth Development Corp. (CDC), German Development Corporation (DEG), and International Finance Corporation (IFC); each holds 25 percent.

Start Date: Established 1964, refinanced at $2.5 million, and rehabilitated in 1990.

Objective: Offer both debt and equity to client companies in Uganda.

Discussion: DFCU views itself as a key player in the current development boom in Uganda's private sector because it combines innovative financing and efficient loan processing. It seeks serious entrepreneurs with well-prepared business plans and can provide fast service to companies with experienced management and a clear focus. DFCU offers a mix of financial and technical expertise to client companies. Its technical department has qualified and experienced industrial/mechanical engineers and agriculturists who carry out in-depth technical appraisals and offer free technical advice, primarily during the application for and utilization of new financing or startup.

DFCU offers equity financing and long-term loans of between $100,000 and $1.5 million in either foreign or local currency at competitive interest rates (cost +2 points and fee); larger projects can be cofinanced by their international shareholders. DFCU's portfolio is 50 percent agribusiness-related, but agribusiness loans are difficult to make. This is because the potential borrowers are geographically widespread, it is difficult to set a value on rural land, and it is difficult to use land as collateral due to land tenure concerns.

Impact: DFCU's 25 loans and 15 equity investments include a vanilla processing plant and a horticultural concern that exports roses to Europe. DFCU appears to be quite successful and is providing a significant volume of badly needed debt and equity to larger private sector firms.

Conclusions: The shortage of viable projects to finance and poor investment project "packaging" are the main constraints to expanded business facing DFCU. One method used to minimize defaults is to make direct payment from loan proceeds to major equipment suppliers. Due to heavy up-front startup costs — project analysis and technical assistance — DFCU can only support a reasonably large-sized project ($300,000+). Establishing borrower integrity (source of wealth) has proved to be a major issue because many potential borrowers have had close connections with previous governments.

5.4.2 Africa Project Development Facility (APDF Uganda)

Sponsor: APDF is supported by the International Finance Corporation, but several other agencies including USAID have provided funding.

Objectives: APDF funds are often used to implement feasibility studies and packages and to solicit financing for large ($500,000+) projects, some of which are in the agribusiness sector. In Uganda, USAID has encouraged and supported APDF to serve smaller projects in NTAE development.

Discussion: The Operational Constraints Analysis Program (OCAP) under ANEPP was financed by a USAID grant after USAID/APDF identified a need for soft funding to cover the startup costs of snow pea and chili export businesses in Uganda. The snow pea project does not seem to be supported by a strong commercial entity, SME or otherwise. Success for the Mantovu chili project has yet to be determined.

The APDF normally requires a $250,000 minimum size project because for projects below that level assessment costs and the cost of arranging financing are too high relative to project size. However, with USAID's encouragement and financial support in Uganda, APDF has focused on projects needing at least $100,000 in new investment. APDF's normal lack of interest in the SME level for NTAE is not surprising given the cost of APDF-type assistance for smaller projects and the serious difficulties SMEs face when approaching the export market by themselves.

Impact (potential): Can local consultants be developed and supervised so that they can perform high-quality assessments and help arrange financing for smaller projects. Most APDF work is currently done by expensive expatriates. Can funds be pre-committed for projects that meet established criteria so that work on a new project can be focused on the extent to which it meets these criteria, thereby making the feasibility and financing process more efficient?

USAID support for APDF to work on smaller projects seems to have succeeded.

Conclusions: Extensive use of expatriate professionals provides a degree of comfort to investors and financiers, but it also makes the minimum cost of project assessment and financing arrangement quite high; therefore only large projects can afford this expenditure. It seems that the assessment and packaging of smaller projects needs to be subsidized or to have locals developed to the point where investors and financiers are comfortable with their work.

This positive experience suggests that a *regional* pool of funds available to APDF to selectively develop smaller projects in sectors of particular interest to USAID would be very useful in Sub-Saharan Africa.

5.4.3 Volunteers in Overseas Cooperative Assistance (VOCA)

Sponsor: VOCA is a Washington, D.C.–based volunteer program.

Objectives: Provide TA to cooperatives and small businesses worldwide.

Discussion: Under the VOCA program in Uganda, volunteers come from U.S. agribusinesses for periods of four to six weeks. Assistance, which must be requested by the client firm, is coordinated by the USAID ADO.

USAID has provided VOCA with funding for SME development, and the VOCA program in Uganda is focused on assisting NTAE. Volunteers worked with the Mantovu chili project — a VOCA volunteer provided assistance to the chili producers and another helped with drying, grading, and packaging. VOCA also worked with APDF on financing the chili processing enterprise.

Impact: Appears positive, but it is difficult to determine comparative contributions because ANEPP, CAAS, and VOCA were all involved in the chili project, and the sustainability of the business is yet to be determined.

Conclusions: VOCA has noted that land tenure difficulties make "owners" hesitant to develop significant investments in property with an uncertain title. Post-visit reports from volunteers are a very important learning tool, but are not always forthcoming.

5.5 FINDINGS ON PRIVATE AGRIBUSINESS ENTERPRISES

5.5.1 Agro Management Group Inc.

Description: Agro Management Group Inc. (Agro), a California corporation owned by the principals of the RONCO consulting firm, was established to invest in agribusiness in developing countries. Their first investment was in the production, processing, and export marketing of pyrethrum in Kabali, Uganda.

Discussion: Before embarking on the investment, RONCO made preliminary investigations and produced a feasibility study on production, processing, and marketing of pyrethrum, built around an assured market, and followed a strategy of close collaboration with its U.S. buyer. The project is demand-driven, and although risky, appears at this time to be a sound financial investment.

Agro adopted a vertically integrated approach to the project that allows it to control the critical elements of the production system. Plant introduction, selection, multiplication, and distribution are financed and managed by Agro. The company created its own extension service to help some 4,000 contract farmers obtain maximum results, and buys the flowers (from which pyrethrum is extracted) from farmers through its own purchasing department. This service is innovative because it is completely financed by the investor and is the first all-female buying service for a major export crop in Africa.

The 4,000 contract flower growers had 500 acres (227 hectares) producing flowers by January 1993, 20 months after the first feasibility study. Plans are to expand to 1,000 acres (400 hectares) with a target of 8,000 growers as more planting material becomes available. The project operates on a principle of systematic, fair, and on-time monthly payment for the produce delivered. To protect the smallholder farmer against inflation and devaluation in Uganda's economy, Agro instituted a dollar-linked payment schedule where prices are adjusted to their dollar equivalent each month.

Agro has reached this stage in the project using its own resources and $1 million from Ronco without recourse to either public funds or financial capital markets. However, Agro has encountered problems because processing of the raw material into the finished product — pyrethrum — was to be carried out under contract with a plant in Rwanda, which is now closed because of the conflicts in that country. Agro is seeking additional financing of $2.2 million to build a processing plant in Uganda. DFCU and the East Africa Development Bank are potential sources of funds.

Impact: The project will provide a new source of smallholder cash income, generate substantial employment, and provide foreign exchange earnings. Agro had 100 percent equity in the venture prior to seeking additional financing. It is now in its third year of development and more than $1 million has been invested.

Conclusions: The speed of implementation of this project (prior to the problems in Rwanda) attests to the rapid response private sector investors *and farmers* can make to a business opportunity. Smallholder farmers must be convinced that an investing company is sincere and is dedicated to implementation of its project; they want to see rapid action on a steady basis. High initial investment costs can only be recouped with high levels of production, obtained as early as possible in the investment cycle. Political and social instability continues to plague foreign investors in Africa.

5.5.2 Ziwa Horticultural Exporters Ltd.

Description: Ziwa is a privately owned company that produces roses and other exports on a 1,000-hectare plot.

Discussion: Ziwa's owner, Captain Roy, also owns the Dairo Air Freight Company and other farms and ranches in Uganda. On its 1,000 hectares, Ziwa has 1 hectare of roses grown outdoors and 2 hectares under plastic, plus some production of asparagus outdoors and leather leaf under plastic. The company employs 345 people full-time, of which half are women, and another 30 people part-time. The facility includes a large cold storage building and a packing/grading shed, as well as insulated trucks. The manager is Ugandan; a Dutch technical specialist is supplied by its Netherlands-based agent. About 6 million stems were exported by air in 1994, partly on Sabena and partly on Captain Roy's air cargo service. Development costs for "indoor" flowers are about $500,000 per acre.

Ziwa received a grant from USAID/APDF for an expert to resolve asparagus production problems, which have delayed startup of this operation by two years.

Impact: While there have been no formal studies of the impact of the enterprise on the surrounding area, there are reports of *substantial* positive development "indicators," such as new and remodeled housing, increased use of the local private clinic, increased school attendance, and the appearance of roadside kiosks. This project is definitely not SME development, but the impact on employment and foreign exchange generation has been *very* substantial.

Conclusions: USAID assistance to help resolve Ziwa's asparagus problems came at a critical time in the development of the company and played a significant role in helping it through a difficult early stage of development. Selective, high-impact assistance of this type seems to represent a very high return to USAID resources.

5.5.3 Harriet's Flowers

Description: A female entrepreneur, Harriet Ssali, owns and operates a flower producing and marketing company.

Discussion: Mrs. Ssali started growing flowers outdoors in the late 1980s and sold them in her own shop. She then imported seeds and bulbs and gave some to other very small-scale women growers, whom she also assisted with growing techniques. She used her own vehicle to collect the flowers and sold them at wholesale and retail in her shop along with food and beverages. The market for flowers has grown rapidly recently due to increasing income levels and the developing custom of taking flowers when visiting or participating in a celebration. She has talked with an agent in Europe about purchasing her flowers but she has insufficient supply to meet his needs. A related problem is that her outgrowers lack funding to expand production. One year her seeds and bulbs were stolen and she nearly went bankrupt.

Mrs. Ssali developed a $1 million investment proposal for outdoor flower growing but lenders found that she had insufficient collateral to cover the loan. The Export Policy Analysis and Development Unit (EPADU) of ANEPP helped develop a proposal for a $240,000 financing package, with a business plan, for which Mrs. Ssali is currently trying to find support.

Impact: The benefit of EPADU/ANEPP's involvement has yet to be determined because, at the time of this study Mrs. Ssali had not been able to obtain financing for her expansion. EPADU/ANEPP's assistance would have had a much greater impact if they had also been able to help her find the needed financing as well as help her with the business plan (i.e., function more like APDF for smaller projects).

Conclusions: Moving from micro, local scale production to export quantities requires significant capital and much supply continuity work. It is not unusual for there to be a stage where a seller has more than the local market can absorb but too little to interest an importer. Micros operate with a very small "cushion" and modest setbacks can jeopardize their entire business. Micro entrepreneurs often need a cash flow from other businesses/sources (e.g., from a prepared food and liquor retail outlet for Mrs. Ssali) to finance the development of their best prospects. A local marketg and to get a return on less than export quality production.

5.6 LESSONS LEARNED AND IMPLICATIONS FOR USAID PLANNING

The following is organized by key Area of Focus.

5.6.1 Non-Traditional Agricultural Export Development

Lessons Learned

- Assistance to firms with reasonable (e.g., at least 30 percent) equity to invest, export experience, and reasonable human resources will provide the most immediate and measurable yield on project resources and the greatest impact on exports. The highest yield on project resources will come from focusing on a *few high-potential* firms. (ANEPP)
- An exporter must have a reasonably *well-established market* and an adequate knowledge of how to serve it in order to achieve NTAE success. (ANEPP/CAAS)

- Conditions for successful smallholder participation in an NTAE business exist when they involve: (a) niche markets where producers have very few alternative buyers for their output, (b) low capital but high labor intensity, (c) a full service (i.e., provides research results and extension) local exporter to support the business, and (d) a well-established international market with established buyers (e.g., McCormick and the Japanese silk firm). (Vanilla and Silk Associations)
- An integrated producer/processor association may be the best approach to cooperatively develop an NTAE industry that utilizes small producers. (Vanilla and Silk Associations)
- MSEs can rarely compete in NTAE unless they are grouped together in an effective way. (ANEPP)
- Anecdotal evidence indicates very substantial secondary benefits from support of larger projects. (Ziwa)
- The right TA well provided is greatly appreciated by qualified entrepreneurs. There are very few local technical and export marketing resources available in Uganda to potential investors. (ANEPP/APDF)
- Use the less exotic, easier to produce crops for regional sales so SMEs have an opportunity to participate with less risk. (ANEPP) The input/output and risk factors for greenfield (startup) development require the generation of a reasonably *quick positive cash flow*. (Agro/Ronco)
- Good TA is not likely to have a positive effect on poorly managed entities. (CAAS)
- Exports, not imports, should be the source of export promotion funding. A fairly administered industry development cess on exports is acceptable to participants. (ANEPP/Silk Association)

Implications

- A comprehensive subsector opportunity analysis is a very logical and important starting point for a new project. (ANEPP)
- A detailed OCA is needed very early in projects (in some cases in the design phase) and must be updated annually. (CAAS/ANEPP)
- An active advisory board that includes several private sector representatives is needed for all agribusiness projects. Private sector input should be solicited early in the project design process. (CAAS/ANEPP)
- Project team real-world experience (as in EPADU) is very useful for prioritizing and pursuing policy reform. (EPADU)
- Assistance should be focused on commodities with a well-established potential market and a reasonable understanding by the private sector of how to achieve success therein. (ANEPP/CAAS)
- Program flexibility and quick reaction time are both essential for assistance to embryonic subsectors. (CAAS/ANEPP)
- Projects should try to achieve a balance between high-value and low-value commodities (e.g., horticulture and beans) to mitigate risk and maximize export earnings impact. (CAAS/ANEPP)

5.6.2 Association Development

Lessons Learned

- Criteria for success of an association include: (a) strong leadership with a longer term commitment, (b) leadership that is trusted by members, donors, and government, (c) minimal government influence, and (d) a clear and relatively narrow focus. (CAAS/ANEPP)
- Associations integrating both producers and exporting firms that sell to specialized non-traditional markets are most effective when the exporters are few in number. Exporters can work with a relatively large number of outgrowers, but the international buyer wants to deal with a very limited number of exporters to enable a cost-effective working relationship. (Vanilla and Silk Associations)
- Integrated associations provide donors the opportunity to successfully support non-traditional export development while reaching small-scale farmers reasonably efficiently. (Vanilla and Silk Associations)
- The vertically integrated association model is difficult to extend to other capital, timing, and specifi-

cation-intensive NTAEs such as cut flowers, where the trend is to move away from reliance on outgrowers, who are difficult to manage. (ZIWA)

- All association development projects need a formal determination of (a) the conditions that must exist for association success (b) what programs are needed to stimulate that success, and (c) what it will cost to develop and implement those programs. (CAAS)

- *Matching* grants for institutional development are effective because they stimulate member involvement and commitment. (CAAS)

- Association management training, especially financial management, is a high-yield donor contribution. (CAAS)

- "Voice" usually requires large numbers, but effective services require a relatively narrow focus. An umbrella (multi-subsector) association can acquire the numbers needed for "voice." (ANEPP)

- In associations with both large and small members, "big tend to pay while small tend to use." (ANEPP) Associations are not likely to develop until an industry gets beyond the embryonic stage, that is, association development will *follow*, not *precede*, industry development. It is difficult to impose an association on exporters, the demand for an association must come from them. (CAAS/ ANEPP)

- Associations and cooperatives have not succeeded as investors due to indecisive management. (ANEPP)

- Work with troubled institutions, such as Ugandan cooperatives, must be highly focused and limited to those with potentially good managers. Improving *incompetent* management is very difficult, if not impossible. (CAAS)

- Government involvement with cooperatives (and probably associations) makes self-financing much more difficult. (UNFA)

- Social cooperation problems and conflict often make association formation and success difficult and tenuous. (EPADU)

- It is preferable to establish a new association rather than try to fix an ineffective one. (ANEPP)

- Large membership associations are often developed as — or become — political pawns. (UNFA)

Implications

- A serious assessment of an association's (new or existing) sustainability must be made prior to providing support; guidelines for doing this are needed. (CAAS/ANEPP)

- Because association management development is a high-yield donor contribution when done well, it should be an important component of all USAID association assistance projects. (CAAS)

- Providing *matching* grants to associations will help build membership and the credibility of the association in the eyes of existing members; grants should be for association projects, not for individual members' projects. (CAAS)

5.6.3 Small and Medium Enterprise Development

Lessons Learned

- Lack of equity and export experience are the two most significant constraints to SME participation in NTAEs. (ANEPP)

- Small, marginal processors should not be supported until a serious study of their economic viability is completed. (UOSPA)

- Criteria for SME success in NTAEs seem to be: existence of a niche market or one with few alternative outlets, low capital/high labor intensity, full service local marketer, and a well-established market. (All)

- MSE development and NTAE development project objectives and implementation methodology are likely to be quite different. (ANEPP)

- SMEs have a very low tolerance for errors or bad luck, given their marginal capitalization. (Harriet Ssali)

- SMEs will develop very slowly if they must depend solely on their own resources. (Harriet Ssali)

Implications

- Effective intermediaries such as associations, NGOs/PVOs, or an FADC are needed for efficient support to MSEs. (All)
- Better guidelines are needed to determine the viability/sustainability of firms being considered for project/activity assistance. (ANEPP)
- A reasonably detailed input/output analysis must be applied to MSE development activities. (CAAS)
- Consider a special/parallel program for MSEs staffed with locals. (ANEPP)
- An "Implications for the Development of Indigenous SMEs" should be a required part of nearly *every* USAID final report (similar to WID). (All)

5.6.4 Financial Services

Notes on Financial Services: Of the projects and associations reviewed, DFCU and APDF are primarily financial services providers. DFCU is focused on providing both equity and debt to investments, some of which are in agribusiness. APDF's normal activities are to do feasibility studies and to package and solicit additional financing for large ($500,000+) projects, some of which happen to be in agribusiness. In Uganda, USAID has supported APDF to serve projects smaller than IFC's norm in NTAE development.

CAAS's matching grants to district cooperatives are not commercial finance (no payback is expected) but seem to represent one of the most effective components of the project. The fact that grants must be matched by local cooperative members (often in-kind) significantly affects the impact of these grants.

The associations assessed in this report all plan to arrange financing for members, but the Silk Association is the only one with funds built into its supporting project. The National Farmers Association and the Oilseed Processors Association *plan* to arrange for financing from commercial banks on preferential terms based on borrowers' membership in the association.

Lessons Learned

- The main challenges to successful financial services providers are the integrity of borrowers, geographic spread of agribusiness projects (particularly where roads are poor), and the difficulties of pledging rural land as collateral. (DFCU)
- The shortage of viable borrowers and poor investment "packaging" are the main constraints, not a lack of available funding. (DFCU, ANEPP, APDF)
- To minimize defaults on loans, lenders much conduct rigorous appraisals and the borrower should supply a minimum of 50 percent of the equity in the venture. The lending institution should make direct payment to suppliers for major purchases of equipment funded by its loan. (DFCU)
- Investments that receive donor project support and TA have a much better chance of success than those that do not. (EPADU)
- A reasonably large project ($300,000+) is needed to justify the cost of a detailed feasibility study. (EPADU/APDF) The lower the value of the investment, the less likely that the cost of the financial services will be recovered. (ANEPP, DFCU)
- Land tenure problems make it difficult to use land as collateral for loans. (VOCA)

Implications

- Given the importance of financing and of TA to larger private investment projects, both of these elements must be programmed into any donor-supported project of this type. (EPADU)
- Local analysts can and should be developed to do appraisals on and to prepare proposals for *smaller* projects. (EPADU)
- More effective and efficient ways to provide financing (equity and/or debt) to MSEs or through associations need to be developed. (All)

5.6.5 Monitoring and Evaluation

Lessons Learned

- Annual association membership satisfaction surveys are needed. (CAAS)
- There is a need to monitor the percentage of the export price that producers receive from marketing boards or associations that are assisted by donors. (CAAS)

- There is a need to monitor the frequency of assistance and the actual contribution made to projects by private sector advisors. This is needed to ensure that project managers are utilizing private sector input efficiently as well as to measure the impact of those inputs. (All)
- Training program results should be monitored at the end of the program and six months *after* program completion. (CAAS)
- The analysis of broadly based linkages between NTAE growth and rural income improvements needs considerable enhancement. (ANEPP/CAAS)
- An association must have a specific plan and time-frame for reaching financial sustainability, especially regarding sources of funds. (ANEPP)
- Information is needed on the *secondary* impact of assistance to large firms to assess the full impact of these projects. (ANEPP/ZIWA)
- The cost of a major project should be related to the *direct* value of its results. (ANEPP)
- Local universities can help establish baseline and control samples that can later be used to measure the change stimulated by a project. Control samples would be useful to determine what portion of improvements are due to changes in the environment and what portion can be directly attributed to the project. (CAAS)

Implications

- Every project must produce concise, timely, and input/output-oriented quarterly reports with a clear focus on overall and sub-part deliverables. These progress measurement reports must be reviewed/managed by USAID personnel on a timely basis. (ANEPP/CAAS)
- Impact measurements need to be broken down to show results by the size of firm. (ANEPP)
- Much more input/output analysis is needed; that is, an analysis of direct benefits versus direct costs. This needs to be done for project components as well as for the overall project. (CAAS/ANEPP)
- When project assistance is limited to or heavily focused on indigenous firms, measure the progress of indigenous firms only. (ANEPP)
- An association must have a specific plan and time-frame for reaching financial sustainability, especially regarding sources of funds. (ANEPP)
- More *random* beneficiary sampling should be used rather than the current project management–guided sampling. (CAAS)
- *If* M&E systems rely on macro measurements (e.g., growth in total exports, sector total employment), why limit assistance to indigenous firms? (ANEPP)
- Quantitative macro performance measurements should not be used to monitor the success of MSE development projects. It is very difficult for these projects to have any significant direct impact on macroeconomic measurements within the time-frame of a typical USAID project. (ANEPP) *Value added* attributed to all USAID agribusiness projects in Uganda must reach $25 million/*year* by 2000 to achieve a 10 percent Economic Rate of Return (ERR) on expenditures through 1994, yet the maximum projected fruit and vegetable exports in the year 2000 is only $20 million. Flower and other exports *attributable to USAID projects* would have to be very large to reach the target growth rate. (All)

5.6.6 General Recommendations

- Private sector advisors need to be used more extensively, especially in project design, because they have highly relevant experience that can be utilized to improve the efficiency and effectiveness of private sector projects. (All)
- Enterprises need reasonable equity and marketing expertise *before* a return can be achieved on project assistance. (ANEPP)
- As much emphasis should be placed on effective and full enforcement of existing policies and regulations as on the creation of new ones. (All)
- Real-world project team experience is very important to help prioritize and pursue policy reform. (EPADU)

- A good subsector prioritization model based on market potential, comparative advantage, OCA, and availability/interest of human resources is needed very early in commercial projects. (CAAS/ANEPP)
- Detailed OCA is needed very early in a project (including design) and must be *updated annually*. (CAAS/ANEPP)
- Because marginally viable institutions will not achieve post-assistance sustainability, project designers should perform a detailed assessment of entity viability *before* providing support. Guidelines are needed for making this determination. (CAAS/ANEPP)
- Delivering high-powered TA *directly* to small projects and entities is inefficient. (ANEPP)
- Smooth, logical, and timely project succession is vital to maintain local confidence in USAID activities. (ANEPP/CAAS)
- Semiannual project review forums (½ day with a broad group of beneficiaries, local government officials, and private sector representatives and ½ day with the project team) can be very useful to help coordinate the project, improve its effectiveness, and enhance its local "ownership." (All)
- All expatriates working on projects should have local hire counterparts. (ANEPP)
- There is a strong need for USAID managers to work *closely* with the management of supported project activities, especially as related to deliverables reporting and management. (DFCU)
- Keeping policy improvement "on the burner" is the only way it will get accomplished. Therefore, all projects must contribute suggestions for high-impact policy enhancement as well as how these improvements can be best accomplished. (ANEPP)
- There may need to be some additional clarification and coordination between the objectives and activities of the Mission's agricultural development and private sector development efforts. Agribusiness is a very important sector in Uganda, and contributes a great deal to the economy; more important, however, is its potential to lead significant economic development. The possibility of agribusiness not getting sufficient emphasis because it "falls in the crack" between agriculture and private sector areas of responsibility should be avoided.

5.6.7 Issues Deserving Further Study

- Is broad-gauged baseline data really necessary? Isn't measuring and monitoring progress of assisted firms satisfactory to determine the impact of a project or activity? (ANEPP)
- What is the best way to determine if an institution (cooperative, association, service entity) is salvageable or if another should be developed in its place? (CAAS)
- How can exporter control of integrated associations be avoided? (USPA/UVEA)
- How does a project focus on NTAE but retain the flexibility to apply similar TA to the much larger domestic and regional markets, especially for firms that will eventually become exporters. (ANEPP)
- What is the best way to determine if existing cooperatives or new associations should be supported? (CAAS) How effective is most general market information? The big firms say they do not need or use it and the small firms do not know how to use it. Do we have effective ways to measure the usage of market information versus the cost of providing it, especially by type of information and type of user? (ANEPP)
- How can timing and usage control problems with PL 480 funds administered by local governments be avoided? (CAAS)
- How can UMA be made financially sustainable, especially its consulting division? (CAAS/ANEPP)
- Can associations be used to improve input supply and replace outmoded state and/or cooperative channel(s)? (ANEPP)

- Why has there been no formal OCA report from ANEPP since late 1992? (ANEPP)
- The silk and vanilla examples show that NTAE development and broad-based development (i.e., reaching out to many small farmers and women) are not mutually exclusive. What is the potential for outgrower/contract grower schemes involving small farmers in crops *other than* vanilla and silk? (Vanilla and Silk Associations)
- What is the best and most efficient way to measure the full social and economic impact of support to large-scale enterprises (e.g., Ziwa Roses under ANEPP)? This needs to be assessed in order to address criticisms of this type of assistance; that is, giving assistance to the large entities who need it least. (Ziwa/ANEPP)
- Is ERR a useful measurement for projects working in very embryonic environments? (All)
- How do donors best balance a policy reform project's need for independence from government with its need for "access"? (EPADU)
- Did CAAS use EPADU's subsector studies as a guide for which sectors to support? (CAAS/ ANEPP)
- What is the appropriate future role for cooperatives in Uganda *agribusiness* or in the provision of services to agribusinesses? (CAAS)

Appendix A

*Detailed Project Assessments**

A - 1 KEDS

A - 2 KESSFA

A - 3 SEPSO

A - 4 K-MAP

A - 5 ANEPP

A - 6 CAAS

A - 7 Silk Development Project

** Refer to the detailed questions which follow for an explanation of the titles used under the Output column.*

1) What project or activity objectives are relevant to the areas of focus chosen for study?
2) How are these aspects of the activity innovative?
3) What performance indicators were or are being used to monitor/measure impact of the activity?
4) How are external influences being managed?
5) How successful have the relevant interventions been?
6) What new agribusiness opportunities have resulted from the activity?
7) What monitoring and evaluation mechanisms, systems, and indicators can be suggested?
8) What relevant lessons can be learned from this activity? What mechanisms worked and did not work, and how could the impact be improved/ enhanced?
9) What are the relevant implications for USAID project design and implementation?
10) What new mechanisms or interventions can be suggested to increase the effectiveness of these projects or activities?
11) What are the indicators of project success that can be suggested, and what is the best way to monitor those indicators?
12) What other useful information should be reported and what are the main unresolved issues?

A - 1 Innovative Project Summary - KEDS

Country: Kenya
Title: Kenya Export Development Services
Sponsor: USAID

Start Date: Mar 1982
Completion Date: Dec. 31, 1999
Project Value: $15 million

Output	Area of Focus: Association Development, Strengthening, Sustenance	Area of Focus: Non-Traditional Agricultural Export Development (especially horticulture)
1) Relevant Objectives	Improve capacity of HCDA (a parastatal) to deliver "market-relevant services" to members (services that complement rather than duplicate FPEAK's services). Strengthen FPEAK as a private sector trade asson. organizationally. Identify & enhance export sub-groups; increasing presence of exporters within KAM.	Deliver direct marketing TA to exporting firms. Deliver indirect TA through IESC. Increase employment in targeted firms. Increase exports by targeted firms. Place special emphasis on horticultural products due to their local content (including labor),capacity to generate foreign exchange & local ownership.
2) How is it Innovative?	Support programs are focused differently; tailored to each assn.	Policy reform program has helped accomplish major policy & regulatory changes that have enhanced competitiveness of Kenya's NTAEs. Also important has been KEDS' active promotion of dialogue between the government & private sector. During first two years, developed strategic consultancy, an export assessment carried out by KEDS & an exporter's management team resulted in identification of the firm's next strategic export marketing move. Provides a "real-world" check before funding.
3) Performance Indicators	Now have a solid M&E framework. This includes an institutional strengthening tracking sheet for activities supporting KAM, FPEAK, & HCDA. Includes such indicators as numbers of personnel trained, publications, MIS services offered to members, trade show attendance & participation, & outreach activities (e.g., held two post-harvest handling seminars with HCDA).	6% average annual growth in NTAE. Direct firm-level assistance to 2,814 firms as of Nov. 1994 (total value: $240,000); to hort. export firms assisted 14 out of 28. Increase in foreign exchange earnings from manufacturing, horticulture & other NTAE's of 25% from 1992 to 1993 (% increase in sales/earnings for assisted firms to be added next year). 34% increase in NTAE'S employment from 1990 to 1993 (% increase in assisted firms to be added next year). Original project objectives of creating 1 million jobs & $770 million in foreign exchange revenue is *unrealistic.*

Output	Area of Focus: Association Development, Strengthening, Sustenance	Area of Focus: Non-Traditional Agricultural Export Development (especially horticulture)
4) New Opportunities	Private assns. now coordinate their members' participation in international trade shows (formerly done poorly by government). Result is an increase in the number of companies participating & the value of sales generated during the shows. More USAID/Embassy dialogue needed.	Several firms who have received KEDS assistance have the new pre-pack products into the European market. Manufacturing firms assisted are primarily targeting PTA markets, & have used the assistance for product & package development, promotion & advertising, & marketing plans/surveys. Need more focus on processing businesses.
5) Success of Relevant Interventions	Too early to determine how effective TA to assns. (KAM, FPEAK, HCDA) has been in internalizing export analytical capabilities; however; they appear better able to deliver trade information training, & export promotion services to agro-processors, hort. producers & exporters; and better able to address policy constraints to export investment & expansion.	Strategic consultancies have assisted small & medium-scale exporters to refocus their requests for EDF funds to include objectives that will help realize new market opportunities & increase export sales. Still too early to measure impact of grants (e.g., on export sales) of assisted firms; first planned impact assessment is for early 1995. Kenya freight forwarders yet to be privatized.
6) Lessons Learned	KEDS hands-on involvement with assns. has been critical in helping refocus their services so as to better meet members' needs & realign their respective roles vis-à-vis exporters. Unfortunately, politics cannot be avoided in the process, & the process takes time. Assns. are only as effective as the management personnel (public or private). Training people, (e.g., in management) is effective to the extent that you can keep the trained individuals in the organization. Extended "team" retreats work well if properly organized & managed. Public/private sector dialogue opportunities are very beneficial. Do not specify exact institutions project must work with, allow flexibility to support those *most willing*.	When policy environment is right, & the infrastructure adequate, commercial ventures & a project such as KEDS supporting them can succeed. Small & medium-sized firms do not have in-depth knowledge of market planning & budgeting, therefore EDF applicants need assistance developing their requests to include objectives that will help realize new market opportunities & increase export sales. KEDS TA (i.e., strategic consultancies) in this area has been critical to the success of the grant process. TA needs are different for different size exporters, especially market information needs. Project efforts must be focused for maximum impact. Changes in or additions to objectives dilute the impact. Assistance to "Want-to-be" exporters is inefficient use of project resources. Exporter cooperation must be carefully managed due to competitive (cartel possibility) considerations. There may be a good return on investment to grants to small & medium-sized firms once they have received the initial manage-

Output	Area of Focus	
	Association Development, Strengthening, Sustenance	**Non-Traditional Agricultural Export Development (especially horticulture)**
7) Relevant Implications for USAID Project Design & Implementation	Assns. can be a suitable & cost-effective vehicle for providing TA to non-traditional commodity exporters, but they must be well managed & serve the needs of their members. Donors can play an important role in helping assns. focus their energies properly the first few years. It is difficult to anticipate what the needs of each assn. will be; a project with built-in *flexibility* to address these changing needs is preferable. Need ongoing, formal operating constraints analysis by type & size firm.	ment assistance & counseling in how best to use the money (still too early to do an analysis of the KEDS-assisted firms). Is helping high-value horticulture & cut flower firms providing assistance to a subsector that would do quite well anyway? Establishing a 50% matching requirements for grants is *very* important to get the most serious participants. Strategic consultancies were added to increase the effectiveness of firm-level support. Export market analyses undertaken by KEDs' & channeled to exporters via assns. gave KEDS & assns. more credibility, & also improved KEDS ability to identify export opportunities for members (and assisted firms).
8) New Mechanisms to Increase Project Effectiveness	Expand coverage to include assns. focused on small farmers & micro enterprises, such as SEPSO & KESSFA. *Member satisfaction surveys* (short, formal); member case studies (long, informal); firm-level impact of seminars/workshops. Portion of exports that meet or exceed minimum quality standards. More focus on the value of exports vs. tonnage. Overall quality, coverage & pragmatism of quarterly reports, including an M&E matrix.	Degree of value added in exported produce (as reflected in higher prices received by exporters). Extent to which producers or exporters contract directly with retail chains or key distributors of produce in EU markets (vs. Thorough agents). Six-month follow-up of performance measures with assisted firms, as well as how well they met the objectives agreed to in order to receive the grant. Adjust project objectives as project matures due to changes in USAID emphasis & local as well as international market *conditions*.

A - 2 Innovative Project Summary - KESSFA

Country:	KESSFA	Start Date:	Jan. 1993
Title:	Kenya Small Scale	Completion Date:	Jan. 1996
Sponsor:	Hans Seidel Fdtn Farmers Assoc. (Germany)	Project Value:	250,000 DM year, US $370,000 year

Output	Area of Focus: Association Development, Strengthening, Sustenance	Area of Focus: Non-Traditional Agricultural Export Development (especially horticulture)
1) Relevant Objectives	Attract 2,000 members within 150 km. radius of Nairobi (small-scale, avg. 1 ha., hort. farmers); assist them to organize into viable units (SHGs) - who then belong to KESSFA.	Deliver direct TA to SHGs. Increase production & amount of horticultural products marketed Market members' output at prices better than those of the agents.
2) How Innovative	Getting hort. farmers together into viable self-help groups (SHGs); also addressing small farmer NTAE marketing issue (i.e., KESSFA contracting directly with exporters).	KESSFA is attempting to give small-scale farmers more leverage in dealing with exporters by acting as principal & negotiating for the SHGs with exporters; Exporters advance seeds to KESSFA, who in turn advances them to farmers (cost is deducted after farmers' produce is sold).
3) Performance Indicators	Membership in KESSFA. Price received by members (compared to prices received from brokers).	Jan. 1994–2,100 members (104 SHGs); Sept. 1994–2,700 members.
4) Success of Relevant Interventions	Still too early to evaluate success of SHGs & KESSFA's work, particularly training.	Members have received on average 25–30% higher prices for green beans than prices from KESSFA received from brokers; but need to talk to members about success of marketing efforts by KESSFA.
5) New Opportunities 6) Lessons Learned	Still too early to determine. An innovation KESSFA would *like* to try is to pay farmers directly into their bank accounts (maintaining privacy for farmers); but ESSFA eed systems advice. Would like to provide transport (now provided by agents) to the more difficult to reach farmers. SHGs must be small (between 20 & 40 members) & have something in common (e.g., water	KESSFA has targeted several NTAE'S crops, including green beans, snow peas, avocados, mangoes, & passion fruit. Currently not working on more value-added activities closer to the farm, but are considering cold stores to put farmers in a position to contract with pre-pack exporters. KESSFA is faced with the problem of farmers producing more than the amount KESSFA negotiated for with exporters; KESSFA

Output	Area of Focus	
	Association Development, Strengthening, Sustenance	**Non-Traditional Agricultural Export Development (especially horticulture)**
	source, tribe,) to give them strong ties. They join KESSFA as a group, but pay as individuals.	then feels it must purchase the product; the local traders being used by KESSFA to collect produce try to frustrate KESSFA buying efforts; solution would be for KESSFA to buy its own trucks (but may be an expensive solution).
7) Relevant Implications for USAID Project Design & Implementation	Although still early, KESSFA may be a good model of how to bridge the gap between exporters & small-scale farmers. The most important intervention is the hands-on training related to forming & maintaining viable SHGs. May need to form women-only SHGs so they do not lose out to the men because of the export crop focus.	Early critical test will be whether KESSFA will maintain its commercial orientation & be skilled enough to negotiate successfully on behalf of the farmers with exporters (and compete with other exporters). Problems may arise if they lose their commercial orientation for a "let's help all the smallholders" philosophy.
8) New Mechanisms to Increase Project Effectiveness	KESSFA would like to provide credit & input services.	In future, form another company with share capital sold to members, with their own cold store & transportation, exporting directly.
9) Suggested Indicators	Member surveys (short, formal); member case studies (long, informal); farm-level impact of assn. Can KESSFA overcome current problem of some farmers selling promised produce to other traders.	Increase in marketed output by SHGs (particularly of new crops); difference in prices received by members from KESSFA and the prices being paid by traders (already being measured) over several seasons.
10) Other Information	30–35% of members are women (may be a danger of losing women due to export crop orientation, & the tendency for men to dominate in the area of export crops)	Young men in particular are attracted to producing hort. crops & joining KESSFA.

A - 3 Innovative Project Summary - SEPSO

Country:	Kenya	Start Date:	Jan. 1993
Title:	SEPSO	Completion Date:	1998

Output	Area of Focus
1) Relevant Objectives	**FN** 1) Support the development of a Kenyan middle class. 2) Establish a successful model for SME support entities elsewhere. **SEPSO** 1) Profitably provide business services to small enterprises; specific goals: 20% cost recovery first year; increase by 20% per year; financially self-sustaining at the end of 5 years. 2) Sustain & improve existing businesses (focus on young, promising, innovative businesses). 3) Establish strong business *partnerships* with clients.
2) How Innovative	SEPSO establishes an ongoing partnership with the firms it assists; follows up with clients every month. Their primary activity, financial consulting, is a means to generate broader based consultancy work (i.e., is a marketing/customer relations tool). This increases their ability to cover more of their activities/expenses through charging fees. Shares in the company are owned by senior managers so company success is important to their personal success. Six current staff, the target is, Nine: Two Technical, two accounting, two marketing.
3) Performance Indicators	SEPSO's revenues vs. costs as per plan rather than the number of seminars held. Currently not monitoring clients' performance.
4) Success of Relevant Interventions	Started late 1993; Recovered 20% of costs in first year. Currently have 140 clients (15–20% agriculture-based), who become SEPSO clients if they are willing to pay registration fee of 1000 Shs ($20). Most popular service is: accounting; is especially appreciated by clients with no training in accounting. Seminars were judged very useful by several clients as a means to learn more about approaches to business & marketing, sources of finance, & for *exposure to other entrepreneurs with similar problems*. 1994 revenue KSh 700,000 ($35,000). Quarterly luncheons for members are rated very useful by members.
5) New Opportunities	Strengths, Weaknesses, opportunities and Threats analysis done for clients includes identification of new opportunities, such as possible new markets, products, etc.; & also develops new consulting business for SEPSO. Clients say seminars have been very helpful with respect to learning more about marketing.
6) Lessons Learned	Clients are demanding quite sophisticated services; requires skilled SEPSO employees to provide this technical assistance, therefore it is important to build internal capacity ahead of business volume. Needs of agribusiness

Output	Area of Focus
	Small and Medium Enterprise Development
	clients are very similar to other client's needs. Most clients do not know about sources of finance; for many their need for funds arises from cash flow problems. SEPSO needs to be an ongoing business partner, not an outside supplier. Clients need structure & systems for organizing their businesses, especially marketing and accounting. Smaller & startup clients, have limited ability to pay for services, especially those involved in seasonal businesses. The development of staff (and strong back-up) to stay current & ahead of clients has been a major challenge; because staff often leave after being trained. Accounting is a needed service, but is highly competitive so it is used as a door opener that will hopefully lead to an ongoing relationship.
7) Relevant Implications for USAID Project Design & Implementation	Projects assisting entrepreneurs/small businesses should themselves be set up like a business, & evaluated using the same criteria applied to clients (i.e., by looking at the bottom line). The ability to generate enough revenues (by satisfying clients) to become financially self-sustaining after a period of around 5 years run should be an important objective and evaluation.
8) New Mechanisms to Increase Project Effectiveness	In the future, SEPSO would like to include a venture capital facility (equity assistance), while maintaining business services to clients. More use of other service providers as subcontractors (e.g., for ISO 9000).
9) Suggested Indicators	1) Growth rate in number of clients. 2) New business success rate. 3) Number of employees before & after engaging SEPSO's services. 4) Sales volume/value before & after SEPSO. 5) Client's revenues-costs profitability. 6) Client satisfaction surveys.
10) Other Information	SEPSO is having difficulty collecting payments from clients. To a certain extent, those firms most needing assistance are the ones least able to pay for it (raising the question, should SEPSO be expected to be completely financially self-sustaining?). Friedrich Naumann Foundation feels that one way to achieve leverage is to set up a working model, (i.e., an organization like SEPSO), that can be replicated in other segments of the market (e.g., outside Nairobi, agribusiness-focused). Prior cooperation with the Kenyan Federation of Employers was abandoned due to minimal federation contributions. Activities are 75% direct business services (mostly accounting/financial) & 25% training. Staff is 100% Kenyan, also all Kikoyu.

A - 4 Innovative Project Summary - K-MAP

Country:	Kenya	Start Date:	1986
Title:	Kenya Management	Completion Date:	Ongoing
Sponsor:	Some USAID + ODA + Pr. Sector Assistance	Project Value:	'87 - '92 - $560,000 from AID

Output	Area of Focus
1) Relevant Objectives	Increase private, formal sector growth by providing one-on-one assistance to SMEs by executives of the larger Kenyan companies. Provide workshops & training to SMEs to enhance their rate of development. Provide materials (booklets, magazines, tapes, etc.) to help develop SME managers. Reduce the small business mortality rate through the provision of management & technical assistance; establish linkages between small & large businesses
2) How is it Innovative	Funded by private enterprises (mostly majors) & donors. Subcontracting exchange between big & small businesses. Program for reduced (150% to 50%) loan collateral requirement by 1+ year clients; project gets small commission. Workshops on "Building Constituency for Economic Change" - forums with government, large companies, & SMEs regarding policy & enabling environment issues.
3) Performance Indicators	Survival & growth rates of registered clients. Defaults on "sponsored" loans. Progress towards self-sufficiency. 1993 = 40%, 1994 = 20% (expanded staff), 1999 target =100%. Attitude of clients, sponsors, counselors, & government toward K-MAP.
4) External Influences	Success of large companies & time availability of counselor executives. Support from donors & sources of TA, including universities & retired international executives.
5) Relevant Success	186 medium & large "provider" companies (70% indigenous), 78 active supporters, & 800 cumulative client companies (350 active). Less than 10% failure rate for (screened) clients. No defaults on "sponsored" loans (new program). There are additional donors supporting the program (e.g., ODA). Has been operating for 8 years.
6) Measurement Improvements	Financial progress of assisted clients, both during & after active assistance. Update client satisfaction survey (not done since 1992). Link continued donor support to progress toward financial sustainability (or amount of client fees) & average client rating.

Output	Area of Focus
	SME Development & Sustenance
7) New Opportunities	Place more emphasis on *technical* consulting. Enhance internal research & information provision capability. Chair nonfinancial subcommittee on policy reform of Kenyan government. Establish a separate unit focused on agribusiness (using TA from the Dutch). Ongoing forums with industry or functional focus.
8) Lessons Learned	One-on one counseling & workshops judged most valuable by clients. Sectoral workshops are difficult to organize & staff but are of great benefit when well done. Better counselor management & training would yield significant returns. Keep K-MAP staff in coordination & out of direct consulting; use practitioners. Client involvement in pre-screening activity & any feasibility studies is essential for client "ownership." There is some difficulty getting clients to pay the full cost of services. Employment service did not work because clients were not willing to pay.
9) Relevant Implications	Commercial companies do not want government involved in project implementation. Kenyan (African) "ownership" is important to program success/progress. Big multinationals' international marketing capabilities is very important for marketing skills development.
10) New Mechanisms	Business Growth Program—intensive (12 workshops & 6 consulting sessions over 6 months) for young entrepreneur development. Internal research capability for answering members' questions & doing research on topics of common interest, (e.g., policy change impact). Looking at a venture capital component for medium-sized companies.
11) Suggested Indicators	Sales, earnings, & employment growth of assisted clients. Time investment of counselors & timely filing of reports. Average level of executive participating as counselors. Ratings on annual client survey.
12) Other Information	40% of clients are women. Workshop participants pay 50% of costs. Many (20%) agribusiness clients; match them with agribusiness counselors; but their needs are similar to others. Average client has 10 employees. 12 full-time staff.

A - 5 Innovative Project Summary - ANEPP

Country: Uganda
Title: ANEPP/Ph3 (3rd Phase ANEPP) Agriculutural Non-Traditional Export Promotion Project

Start Date: 1992
Completion Date: 1994
Project Value: $13.5 million NPA in 1992 + $10 million

Output	Area of Focus: Association Development, Strengthening, Sustenance	Area of Focus: Non-Traditional Agricultural Export Development (especially horticulture)
1) Relevant Objectives	Originally, TA was intended to identify & work with an association; this was modified due to the immature nature of existing assns. Follow-up project (IDEA) will further pursue association development.	Increase export earnings. Increase employment in NTAE sector. Identify export opportunities & promote exports. Provide TA to exporters. Diversify export base. Objectives can be grouped into four areas: - Removal of practical difficulties - Provision of market info - Develop key technical skills in R&D support services - Development of, & support to, sector assns.
2) How is it Innovative?		EPADU (supported by ANEPP) is a *good model* of an autonomous policy analysis unit with a very positive impact on policies affecting NTAE exporters & growers. OCAP (Operational Constraints Analysis Project), undertaken by EPADU/ANEPP, with funds & TA assistance from APDF, identified, on both a formal & informal basis, specific operational constraints to NTAEs, provided TA to high potential firms to overcome them, & used the OCA results to help bring about policy change. Only example found of post-finance assistance by APDF. Hands-on work of EPADU, primarily by locals, to stimulate 2nd tier firms to pursue opportunities.
3) Performance Indicators	How will the Vanilla Association coalesce & stay together without UVAN doing most of the work?	Primarily process indicators, such as number of people taken overseas, specific services provided by the project, physical establishment of crops in the trials program. Also changes (doubling) of export values of all commodity groups within horticultural sector & increase in average unit value (i.e., amount of value added).
4) Management of External Factors	Development of the NTAE subsector will stimulate interest in the relevant assns.	

Output	Area of Focus	
	Association Development, Strengthening, Sustenance	**Non-Traditional Agricultural Export Development (especially horticulture)**
		Consideration given to exchange rate impact in 1994. High transportation costs to European markets relative to those of West African competitors make some otherwise high-potential crops noncompetitive from a production standpoint. *EPADU policy modification successes big help re: enabling environment*.
5) Success of Relevant Interventions	Very minimal progress made due to the very *embryonic* nature of the subsector.	Value of all hort. exports has increased from $410,000 in 1991/92 to $3.25 million in 1993/94 (expected to be $8.4 million in 1995). OCAP only marginally successful; minimum size project for APDF assistance too large versus local needs. Packaging import substitution & airport cold store assistance very helpful. Good *local* capacity-building for NTAE, OCA,& policy modification. Project management & financial assistance to variety adaptation work was a significant benefit. 1st- tier firms doing well, have overcome many production & marketing constraints over the past two years & identified new opportunities via ANEPP technical assistance.
6) New Opportunities from the Project	A broad-based exporters association could be developed fairly soon.	ANEPP identified (through baseline studies) three high-potential NTAE areas on which to focus resources: fresh high-value (flowers), strong regional market possibilities (maize & beans), & nonperishable high-value (spices); also identified new crops (e.g., asparagus & leather leaf) previously not grown in Uganda; pursued crop trials & helped overcome marketing constraints faced by assisted firms.
7) Suggested Measurement & Evaluation Improvements	Establish formal criteria for donor association support & communicate to assn.	Stratify firms into the three size groupings & follow performance (e.g., sales, returns, employment of assisted firms) by size. Measure secondary impact of large firm assistance (e.g., Ziwa). Need better project progress reporting. Baseline macro data is poor, but is it really necessary? If M&E focuses on macro measurement, why limit assistance to indigenous firms? Can program success be measured by the progress of just those firms assisted? Link specific activities to the measurements established for the project (e.g., what specific activities contrib-

Output	Area of Focus	
	Association Development, Strengthening, Sustenance	**Non-Traditional Agricultural Export Development (especially horticulture)**
		uted how much to the doubling of NTAE exports).
8) Lessons Learned	Cannot impose organization on groups of exporters; demand must come from them. Good managers & strong *leaders* as well as a tight focus lead to strong assns. Embryonic subsectors will not support viable assns. "Voice" requires numbers, but services must be highly focused. In assns. with both large & small members, the large tend to pay & the small to use.	Subsector opportunity studies were important for identifying high-potential areas for project focus. Projects dealing with agribusinesses & exporters need a high degree of flexibility to be able to *quickly* respond to rapidly changing needs of the market. Better to focus on a limited number of exporters than to try to help everyone. Micro & small enterprises can rarely compete in NTAEs unless grouped they are together in an effective way. The right TA well provided (e.g., with good international contacts & technical support) is much appreciated by the entrepreneurs who NTAE projects want to encourage. Poorly "packaged" investment project plans are a more important constraint than lack of financing. Get export support funding from exports not imports, thus an increase in exports = an increase in available funding. Delivering high-powered TA to smaller projects is inefficient (e.g., APDF). Enterprises need significant capital & management expertise *before* a return can be achieved on project assistance. *Rapid* response to client needs is very important in NTAE development.
9) Relevant Implications for USAID Project Design & Implementation	Well-focused & managed assns. may be able to bridge the gap between small farmers & the complex requirements of international markets (e.g., silk & vanilla assns.)	Objectives of NTAE projects (e.g., foreign exchange generation) should not be confused with objectives of projects aimed at developing micro enterprises/small farmers. Include domestic market development for SMEs who may eventually become exporters. Lack of equity & export experience are the two greatest SME constraints. Most short- to intermediate-term NTAE growth will come from existing exporters.

Output	Area of Focus	
	Association Development, Strengthening, Sustenance	**Non-Traditional Agricultural Export Development (especially horticulture)**
10) Suggested New Mechanisms to Increase Project Effectiveness/New Project Opportunities or Approaches	Technical assistance in the area of strengthening assns.(e.g., management & group dynamics). Strengthen existing assns., & perhaps create an umbrella agribusiness assn. that would give members a stronger collective voice in policy decisions that affect them. Identify, understand, & measure the criteria for assn. success, especially for SME assns.	Steering committees need to play a stronger role at all project stages. Work with small-scale firms/farmers needs to focus on overcoming constraints to increased production, marketing of low-value crops,& reaching potential regional markets (e.g., use assns. for input distribution, continued support to R&D, & dissemination of new technologies). Establish a new organization for NTAE development (EPADU) if the existing one (UPEC) is not functioning; avoid “beating on a dead horse.” Focus on less exotic but high-volume potential crops (e.g., maize & beans) for a greater & quicker economic impact. Update OCA annually. Establish a locally staffed small projects development unit for projects smaller than APDF can handle & for “ongoing” support (i.e., use dual programs). All senior project *operating* personnel should have local counterparts.
11) Suggested New Indicators	Does an association have a specific plan & timeframe for reaching financial self-sustainability, including sources of funds?	How have assisted firms by size category increased their sales & profitability & expanded their employment? Number of firms making jump from 2nd to 1st tier & their export/employment levels. Socioeconomic impact study focusing on rural area surrounding assisted firms. Measure increase in exports from indigenous firms only because these are the major focus of assistance.
12) Other Information/Key Issues	Can assns. be used to improve input distribution (& replace old government channels)?	Efficiency of small-scale maize & bean production needs to increase in order to take advantage of significant regional export opportunities. Market information— is it worth the expense (i.e., those regularly exporting do not need it) or should it be viewed as an educational tool for the 2nd & 3rd tiers? Biggest impact of ANEPP may be increased awareness of the complexities of international marketing (how to measure?). The discontinuity of IDEA not achieving a smooth takeover from ANEPP has resulted in the withdrawal of support from some mid-stream projects & a loss of USAID credibility by locals. This seems to represent poorly managed project “continuity.” Maximum fruit & vegetable exports (not including flowers) by the year 2000 are estimated to be only about US*$20 million* versus ANEPP’s cost of $23.5 million.

A - 6 Innovative Project Summary - CAAS

Country:	Uganda	Start Date:	1991
Title:	CASS (After 1991 re-orientation) Cooperative	Completion Date:	Oct. 1994 (except PL480 & Co-op Bank Financing)
Sponsor:	USAID	Project Value:	$10 million

Output	Area of Focus: Association Development, Strengthening, Sustenance	Area of Focus: Non-Traditional Agricultural Export Development (especially horticulture)
1) Relevant Objectives	Provide support to oilseed processors association (UOSPA) to increase domestic edible oil production & reduce imports. Create department under UNEX (subsidiary company of UCA) to export for coffee cooperatives.	After redesign, develop NTAE agribusinesses: Revitalization of edible oil industry. Work with newly liberalized coffee Cooperatives now licensed to directly export their coffee.
2) How is it Innovative	Facilitating linkages between producer cooperatives & private exporters of coffee. An association of processors as a mechanism for stimulating domestic production & reducing imports.	Minimal: some work on NTAE (e.g., snow peas) innovative in the context of assistance to cooperatives. Shifted from assistance to cooperatives to subsector high-value NTAE assistance mid-project. Expended some effort on the new broadly based silk & vanilla projects.
3) Performance Indicators	Difficult to determine apparently minimal quantitative measurements were established.	Have not attempted to seriously measure impact, including on cooperative people trained.
4) External Influences	Widespread by ineptitude & theft cooperative management. Government will not approve deregistering defunct cooperatives, even though the law allowing it passed. Newly liberalized environment, but there is still great distrust of former top-down, government-influenced cooperatives.	Improvement in enabling environment & economy eliminated need for some of the early project components.
5) Success of Relevant Interventions	After its redesign in 1991, CAAS succeeded in increasing the capacity of *selected* cooperatives to produce & process sunflowers & helped make selected cooperatives more knowledgeable about producing & marketing NTAEs. Only 5% of cooperative members were affected by the project. Matching grants helped pay for cooperative facilities & build perceived value of cooperatives to members.	Overall results seem marginal versus the financial investment. Export diversification work successfully *started*. Exported 2 tons of snow peas; expect to produce 4,000 tons of edible oil in 1994 as a result of oilseed rehabilitation project; gave grants to 296 societies through matching grant program. Coffee marketing board privatized. Private sector dialogue has increased. Market price information seems well received.

Output	Area of Focus	
	Association Development, Strengthening, Sustenance	**Non-Traditional Agricultural Export Development (especially horticulture)**
6) Suggested Measurement Improvements	Monitor new assns. regarding member priority needs & ongoing satisfaction (e.g., interview members on how they rate the assns. performance relative to established objectives); for UOSPA impact on members' viability & profitability. Portion of marketing entities' sale price remitted to producers. Self-sustainability progress of UCA. Monitor training effectiveness with 6-month follow-up.	Dramatic need for better data on direct impact & broader based beneficiary satisfaction surveys. More work needed on market potential for products promoted & what it will take to realize that potential.
7) New Opportunities from the Project	Helped establish oil Seed Producers Association & Snow Pea Growers Association	CAAS identified market for snowpeas (along with ANEPP) & helped overcome production constraints; market size & sustainability to be determined.
8) Lessons Learned	Where & when members are contributing (e.g., matching donor's contribution somehow), the likelihood of project success is dramatically better. Government must stay out of commercially related activities. *Basic* training helps struggling institutions. Management makes the difference in the performance of cooperatives, especially their ability to adjust to changing conditions. Where cooperatives are weak & not providing services to members, assns. are a viable alternative, since many producers still have a strong need to get together.	TA & advisors are not likely to affect poorly managed cooperatives. Must have serious sustainability plans & monitor same (none evident). Need in-depth understanding of commercial opportunities & operating constraints to develop efficient & viable programs/projects.
9) Relevant Implications for USAID Project Design & Implementation	Cooperative development has proved largely unsuccessful; how will association development prove to be more successful? Despite a lot of effort & money, CAAS has been unable to create many viable cooperative institutions, or to establish the appropriate role of cooperatives in agribusiness or as providers of services to farmers.	Focus, focus, focus. Detailed OCA needed in project design phase. Avoid institutional rescue, especially when politically influenced. Original design assumed low production was due to low use of inputs & therefore focused on input delivery via cooperatives; this turned out to be a poor assumption (farmers were not using inputs because it didn't pay off!)

Output	Area of Focus	
	Association Development, Strengthening, Sustenance	**Non-Traditional Agricultural Export Development (especially horticulture)**
10) New Mechanisms to Increase Project Effectiveness/ New Project Opportunities or Approaches	Since assn. sustainability is a function of management, should not a major donor focus be institutional management development? Restructure UCA to a sustainable size with high-demand services. Do a formal analysis of the conditions for institutional success & programs needed for stimulating same.	Semi-annual project review forum (½ day with all participants & representative beneficiaries & ½ day internal). "Devil's Advocate" assigned at internal session. More formal & ongoing analysis of constraints & means for overcoming same. Use ANEPP subsector analysis studies for opportunity identification. Make serious determination of institutional viability *before* attempting to rescue it.
11) Suggested Indicators	Financial viability of assisted cooperatives. Portion & number of cooperative membership that benefited from the program/ project. Membership satisfaction score from an annual survey.	Contractor reporting & performance versus objectives need to be much better managed. Actual exports or sales of assisted projects versus cost to generate. Portion of vegetable oil supplied from domestic sources or decrease in foreign exchange used for imports. Increase in output of UOSPA members.
12) Other Information/ Key Issues	Should the cooperative movement look at broad issues such as land tenure? Under what circumstances is institutional rescue better than establishing an alternative organization? Should rural cooperatives get involved with NTAE (especially high-value) given its complexities? Can broadly focused institutions (e.g., cooperatives) be effective & sustainable in developing economies? How do they compare in effectiveness to more focused & less government-influenced assns.? When & how should defunct cooperatives be dissolved?	Why no maize & beans export program? Which subsectors have the potential to show a reasonable return on USAID's investment—based on market potential, comparative advantage, OCA & interested/capable human resources?

A - 7 Innovative Project Summary - Silk Development Project

Country: Uganda
Title: Silk Sector Development Project

Start Date: Jan. 1994
Completion Date: 1996/1997

Output	Area of Focus: Association Development, Strengthening, Sustenance	Area of Focus: Non-Traditional Agricultural Export Development (especially horticulture)
1) Relevant Objectives	Two-year pilot project will be implemented through a private sector assn., the Uganda Silk Producers Assoc. (USPA), within which a Project Directorate (PD) will be established. The goal is to strengthen the USPA so that it will be able to take over all of the activities of the PD by the end of the 2nd year.	Bring about a sustainable increase in national export revenues & smallholder incomes through the development & strengthening of the commercial sericulture (silk) sector.
2) How is it Innovative?	Changing USPA from an exporter-led association to a more producer-oriented association; it is too early to determine how successful this transition will be.	Totally new smallholder-based NTAE. Plans to develop & apply a replicable crop-credit package & extension through the establishment of 24 Silk Development Centers (SDCs) serving 240 farmers. Assn. provided extension. Integrated producer & processor assn. SDCs to be turned over to the assn. at end of project.
3) Performance Indicators	A complete internal monitoring system to be established, including full details of technical, socioeconomic, & financial data to be collected by USPA.	Will have some comparisons of participating versus nonparticipating farmers. Baseline survey of farmers will be followed up after 18 months. Good starting log frame.
4) Success of Relevant Interventions	Too early to determine.	Too early to determine.
5) Measurement of Improvements	Will need to monitor USPA regarding member satisfaction (e.g., interview members on how they rate the assns. performance relative to established objectives) have an impact on members' profitability. Another measure will be whether USPA can generate enough revenues (e.g., from fees for service, export cess, membership fees) after 2 years to be self-sustaining.	Participatory farmer versus non-participatory farmer income surveys will be a good mechanism for monitoring impact (i.e., baseline versus after several years). Farmer satisfaction with cost versus value of extension & marketing services.
6) New Opportunities		

Output	Area of Focus	
	Association Development, Strengthening, Sustenance	**Non-Traditional Agricultural Export Development (especially horticulture)**
		Good potential for value-added activities aimed at women's groups/NGOs (e.g., silk weaving, easy to start with export-reject materials).
7) Lessons Learned	Key characteristic of a strong assn. is good management staff (members must believe it is managed well). An assn. should not get involved in too many activities; it should stay focused assn. must be seen as representing everyone & enforcing the rules for everyone.	If there is a niche market or one with minimal alternative outlets for producers, low capital intensity, & high labor intensity, full-service local exporter(s), and an established international market, then SME participation in NTAEs can work. Cess (toward self-funding) on exports is acceptable to participants.
8) Relevant Implications for USAID Project Design & Implementation	Working with an assn. closely for the first few years to get them clearly focused on providing membership with needed services may help ensure viability over the long-term, there must be a clear plan on how the assn. will become financially self-sustaining.	Something as complex as silk requires hands-on TA & strong exporter-producer ties; an integrated producer-exporter association may be the answer for such NTAEs. Project was preceded with detailed subsector feasibility study. Very similar to a specialized ADC. Assn. must be perceived as being of benefit to all members.

Appendix B

Association Profiles

B-1 Association Profile - KESSFA

Kenya Small Scale Farmers Association (KESSFA)	
Basic Objective	Assist small-scale horticultural farmers in organizing into self-help groups; act as a broker between these groups & exporters.
Number of Clients	2,817 farmers (Nov. 1994), organized into 107 (SHGs)
Years in Existence (offering services to clients)	1 year; formed in 1993 Key personnel are from Kenya National Farmers Union, also supported by HSF.
Operating Budget	$226,000 Annual revenues: KShs 791,479 (US$16,000)
Percent Self-Financing (or goal toward becoming self-financing)	< 10%; no specific plan to become more financially self-sustaining, but goals are 15–20% for year 2, 20–30% for year 3, & 40% by year 4.
Annual Donor Support	KShs 10.5 million (US$210,000)
% Post-Harvest Agriculture Business	100% fresh horticultural products; in future would like to work on increasing value-added activities by members.
Number of staff	4 secretariat staff
Major Strengths*	Allows small farmers access to competitive export markets that they would not have as individuals. Training programs very well received. Seed supply & what to plant suggestions both important. Very well focused/limited in scope (geographic & number of members).
Major Weaknesses*	Limited ability of members to pay membership dues & think about the longer term. No credit available for members. May be some tribal favoritism. Lack of transport availability from areas without good roads. Highly seasonal business, thus excess capacity off season. Bulk versus value-added ratio is too high.

** Primarily member/client defined*

B-2 Association Profile - AAK

Agribusiness Association of Kenya (AAK)	
Basic Objective	Facilitate networking between agribusinesses & strengthen linkages between micro enterprises & large-scale producers & processors; promotion of agribusiness dialogue especially with financial institutions; & lobbying.
Number of Clients	21 firms
Years in Existence (offering services to clients)	Formed in 1992
Operating Budget	Not fully active
Percent Self-Financing (or goal toward becoming self-financing)	Plans for study to examine the range of services to be offered to members by the assn. & possibilities for income-generating activities with the goal of attaining financial self-sufficiency within a 3-year period.
Annual Donor Support	Seeking USAID funding of Secretariat: $450,000 for 3 years
% Post-Harvest Agriculture	> 80%
Number of Staff	Proposed secretariat staff: 4 full-time, 1 part-time
Major Strengths*	Members include the most successful agribusinesses in Kenya; potential lobbying power is high.
Major Weaknesses*	Lack of a thorough understanding of specific information & service needs of members & their willingness to pay for these services. Small-scale & large-scale members likely to have very different needs; not clear how linkages between the two are to be fostered.

** Primarily member/client defined*

B-3 Association Profile - Uganda Oilseed Processors Association (UOSPA)

Fresh Produce Exporters Association of Kenya (FPEAK)	
Basic Objectives	1) The collective representation of the fresh produce & floral industry in all matters related to potential government legislation & intervention (original objective). 2) Providing services; bringing new technologies & information to members (new additional objective).
Number of Members	> 200; around 50 active members
Years in Existence (offering services to clients)	Established originally in 1975; formal secretariat established for first time in 1992; new & more active board of directors elected in 1994.
Operating Budget	$65,000 (1994)
Percent Self-Financing	70%
Annual Donor Support	$30,000 (1994)
% Post-Harvest Agriculture Business	100%
Number of Staff	2 part-time; 6 board members, 1 part-time.
Major Strengths*	Industry-specific association allows good focus on meeting members'needs. New emphasis on provision of marketing, technical services (e.g., new varieties); funding/financial information to members is more demand-driven than previously. Market News Service—eveloped & financed by KEDS. Most value is to medium & small firms.
Major Weaknesses*	Dealing with a membership not yet aware & educated on benefits of a trade association (e.g., relatively unsophisticated managers, many of whom are farmers who recently started exporting). Insufficient emphasis on sea freight rate reduction.

** Primarily member/client defined*

B-4 Association Profile - UVGEA

Uganda Vanilla Growers and Exporters Association (UVGEA)	
Basic Objective	Increase production & exports of vanilla
Number of Members/ Clients	Around 5,000 producers & 2 exporting firms
Years in Existence (offering services)	This assn. is in the process of being formed; until now it has existed in the form of one vanilla producers group (around 2,000 members) & one vanilla producers cooperative (2,000 members), working with 2 vanilla exporters.
Operating Budget	Not clearly established; assn. charges 2,000 Shs to join; 1,000 Shs/year fee.
% Self-Financing	Plan is for salary of 27 technical field staff (now being paid by USAID/EPADU to be paid for by assn. (timeframe not clear).
Annual Donor Support	Searching for donor support; have received assistance from USAID for the last 3 years. APDF feasibility study assistance.
Costs versus Returns of Support	USAID spent around $36,000 on extension services to farmers over the 3 years; $25,000 on experts; results: an increase in vanilla exports from $40,000 to $900,000 from 1990 to1994.
Number of Staff	27 technical field staff; cost to USAID: $1,000/mo. for 3 years
Major Strengths*	Have a strong voice on policy matters influencing the vanilla industry; will make it easier for donors & government to assist industry through one association; must become member-driven, perhaps more by the exporters (who want continued donor financial assistance) than by the farmers themselves; will make it easier to ensure Uganda's reputation for reliable, high-quality vanilla; will be easier to become self-sustaining (& pay for field technical staff) if exporters are also members.
Major Weaknesses*	Exporter objectives will at times conflict with farmers' objectives; may weaken farmers'bargaining strength vis-à-vis exporters. Success will require ongoing hands-on support and management by the main entrepreneur. Producers percent-age of export value *appears* low at this time. UVAN dominates exports but the owner has been the driving force in industry & association development.

** Primarily member/client defined*

B-5 Association Profile - USPA

Uganda Silk Producers Association (USPA)	
Basic Objective	Bring about a sustainable increase in national export revenues & smallholder incomes through the development & strengthening of the commercial sericulture sector.
Number of Members/ Clients	At first, USPA consisted of 2 exporters; when the EU agreed to support them, they insisted on USPA being open to farmers; now have 400 members, & are seeing 1 or 2 new exporters entering the business.
Years in Existence (offering services)	4 years; new integrated assn. started in Jan. 1994
Operating Budget	1.3 million Ush average over first 3 years. Ush 60,000/member (US$50) needed for sustainability
% Self-Financing	Goal to be self-financing in 3 years; however, EU does not appear to have a clear plan on how this will be accomplished.
Annual Donor Support	ECU 2.2 million over 3 years; includes silk development facilities & farmer loan facilities.
% Post-Harvest Agri-business 1) Revenues 2) Clients	100%; Good potential for increased value-added at the farm-level (e.g., farmers will be drying cocoons themselves in the silk development centers being constructed); EU plans to work with NGOs & women's groups doing silk weaving.
Number of staff	To be determined. However, by the end of the second year it is supposed to be managing most project activities, which are projected to require 4–5 full-time professionals.
Major Strengths*	Producers should benefit more from the new assn. than from the original exporter-led assn. current chairman (also exporter) is seen as fair & impartial & has been a positive driving force behind assn. & industry development. Conceptually, the USPA will become the driving force in the industry providing significant inputs & financing to growers.
Major Weaknesses*	May be friction between processor/exporter & grower members; no clear plan to make assn. self-financing. Two-year phaseover from external (EU) to assn. management of significant services seems overly optimistic.

* *Primarily member/client defined*

B-6 Association Profile - UOSPA

	Uganda Oilseed Processors Association (UOSPA)
Basic Objective	Ensure availability of high-quality planting material via seed multiplication programs; secure working capital credit for members to purchase raw material; offer extension advice to oilseed growers; provide members with oilseed milling technical training; assist them to find spare parts; market their output.
Number of Members/ Clients	40–0; 20 paid members
Years in Existence (offering services)	Registered April 7, 1994; just starting up. Need help in drafting association structure, by-laws, organization, etc.
Operating Budget	107,135,000 UShs for 2 years (from USAID/CAAS project)
% Self-Financing	Only 0.6% for 1994 from 20 members, who each paid 15,000 UShs membership fee
Annual Donor Support	$115,000 USAID/CAAS grant for first 2 years
% Post-Harvest Agri-business	100%
Number of staff	1 Administrative Secretary; hiring a Project Manager
Strengths*	Potential to increase oilseeds production. Members come from all regions of the country. If assn. is successful in helping members address & overcome their operational constraints, there should be a considerable increase in vegetable oil production. The association may be able to arrange member access to working capital.
Major Weaknesses*	Lack of member business & oil processing technical skills. Many members not financially viable. Some believe UOSPA's role is to channel donor funds to members. Members as of yet not using the assn. to lobby. Under the wings of UCA. No overall plan for developing the oilseed sector. Largest number of members account for a very small % of production (70% is by 1 firm). Very little funding for TA to mill operators. Plans for quality oil seed multiplication are sketchy.

** Primarily member/client defined*

B-7 Association Profile - UNFA

Uganda National Farmers Association (UNFA)	
Basic Objective	To raise the living standards of Ugandan farmers through enhanced “voice” & the provision of financial & technical assistance. To be the premier agricultural organization in Uganda.
Number of Members	40,000 in 15 districts; Ush 1,500 to join; 1,000/year.
Years in Existence (offering services)	Approximately 3 years. Formally established Sept. 1993. Major member needs perceived to be credit facilities & marketing services/information.
Operating Budget	Around $4 million for first 5 years
% Self-Financing	Plan: 10% in first year; 20% in 2nd; up to 100% by 10th. Membership proceeds go 60% to district & 40% to headquarters.
Annual Donor Support	DANIDA has provided $4 million for the first 5 years. Chief Technical, Extension & Marketing Advisors from DANIDA. Early funding from USAID, World Food Program, & FAO.
% Agribusiness	100%; heavy focus on inputs—credit & extension—but some on market information (domestic S/D balancing).
Number of Staff	30 full-time; 15 of which are located in the 15 districts where UNFA is currently fully operational
Strengths*	UNFA is structured as a “bottom-up” farmer driven organization based on sub-assns. If successful will eventually replace an ineffective government extension service; now manage extension in 15 of 39 districts. Each district will identify 2–3 high-value crops to focus on. Market prices from 39 districts & recommended suppliers are two important services. Sponsors national agricultural exposition. If 70% of farmers join, will represent 63% of the population.
Major Weaknesses*	Lack of focus; objectives very ambitious. Not clear how association will generate sufficient revenues to become self-sustaining. Founders are very politically motivated. Regional association coordinator will work under regional government appointee. Will current government extension service allow themselves to be taken over? Will assn. workers, especially for supplier recommendations be, “influenced” by less scrupulous vendors?

** Primarily member/client defined*

B-8 Association Profile - UMA

Uganda Manufacturers Association (UMA)	
Basic Objective	Build Ugandan industry. Increase human resources capacity regarding business. Promote, protect, & coordinate the interests of industrialists; act as a watchdog and mouthpiece for members; initiate & facilitate discussions & exchange information among members on issues of concern; advise government on key policies affecting industry.
Number of Members/ Clients	410 ordinary plus some associated members; related associations & affiliated members; suppliers to industry
Years in Existence (offering services to clients)	Formed in 1966; serious activation in 1988
Operating Budget	$654,000 for UMA secretariat; membership fees range from $55 to $380 depending on company size; consultancy financed by USAID. Income includes gate fees to UMA-owned trade fair grounds.
% Self-Financing	Secretariat - 98%, 2% from British Council; consultancy financed by USAID.
Annual Donor Support	$255,000. Substantial USAID grants to the Consulting unit for policy & feasibility studies, joint government/private sector forums & 2 young MBAs on UMA staff. USAID also supports its consultancy work with SMEs. Total 1995 USAID support $250,000.
% Post-Harvest Agri-business	Major area of emphasis; both NTAE & import substitution (e.g., vegetable oils).
Number of staff	24-member board; UMA secretariat (chm., v. chm., sec. & treas.) has 16 staff (7 graduates); the consulting and Information services group has 8 full time, graduate consultants.
Strengths*	Strong, competent leadership. Focus on informing members of business potential (e.g., market–where & what) policy modifications needed, and availability of inputs. Interested in establishing export quality standards. Has a consultancy unit to help both SMEs & large companies. No financial accountability problems. Very conducive relationship with government & the president. Young, highly qualified professional staff.
Major Weaknesses*	Large firms in Uganda are relatively small in global terms. Some public sector institutions very skeptical of an emerging private sector & try to inhibit its progress. Some policy (e.g., selective tax exemption) and enforcement (smuggling) issues make it difficult for the private sector. Need more funding for training of staff and members. Consultancy still heavily financed by USAID.

** Primarily member/client defined*

B-9 Uganda Grain Exporters Association

- Need to export $500,000 to join (serious exporters only).
- Initially there were 24 members there are fewer now because the grain export business became nonviable due to fluctuating exchange rates, deteriorating seed (and therefore product) quality, working capital costs; and few pay but many want benefits.
- The regional grain export business is heavily influenced by political and government officials' personal benefit decisions. Therefore, it is very difficult to predict price and access.
- The grain export business needs more support on seed quality improvement and extension services in order to increase the quality and productivity of grain output.
- The problems and likely solutions to the grain export trade are known; the challenge is getting it done.

B-10 Uganda Horticultural Association

- 80 members; only 20 are exporting.
- It has undergone several evolutions and is still evolving.
- The flower exporters broke from the association due to their perceived specialized needs and leadership "jockeying"; now the membership consists of fruit, vegetable, and spice companies.
- Association leadership (from Fruitpack) is now trying to develop an NTAE association with horticultural, flower, and grain companies organized into three divisions.
- A larger association is wanted because the larger the membership the greater the voice and the greater the amount of funding available for a secretariat.
- USAID/VOCA did a Horticulture Assn. feasibility study, but their proposal for its structure was excessively farmer based.
- Most members' problems/needs are in marketing, not production.
- Horticultural association leadership believes that an NTAE association can be successful if it focuses on common membership needs and avoids political considerations (i.e., power management).

Appendix C
Development Financing Organizations

C-1 Development Finance Company of Uganda (DFCU)

- Established in 1964 during the beginning of Uganda's development, refinanced at $2.5 million and fully rehabilitated in 1990.
- Ugandan company, with most of its shares held by foreign entities. Shareholders, at 25 percent each are the Uganda Development Corporation (UDC), Commonwealth Development Corporation (GDC), German Development Corporation (DEG), and the International Finance Corporation (IFC).
- View themselves as key players in the current development boom within Uganda's private sector because they combine innovative financing and efficient loan processing; looking for serious entrepreneurs with well thought through business plans; gives fast service to companies with experienced management and a clear focus.
- Offers long-term loans of between $100,000 and $1.5 million in either foreign or local currency at competitive interest rates (cost +2 points and fee); larger projects can be shared with their international shareholders.
- Will invest equity of between $50,000 and $800,000 for up to 50 percent (like redeemable preferred shares).
- Staff: 3 expatriates, 12 Ugandan professionals, 12 administrative.
- Portfolio 50 percent agribusiness related; agribusiness loans are difficult due to the geographic spread of the businesses and the difficulty of valuing and using land as collateral.
- Has seen a rapid growth in its long and medium-term shilling and foreign currency finance portfolio in the last five years; this growth is attributed to the company's ability to identify profitable projects, get the finance on line in the shortest time possible, and offer its services at a reasonable cost.
- Examples of the 25 loans and 15 equity investments include: UVAN, the first vanilla processing plant set up in 15 years and enjoying a high demand on the export market; Nile Roses, a horticultural concern that exports roses to Europe; and Capital Radio, one of the first FM stereo radio stations to go on the air in Uganda,
- Offers a mix of financial and technical expertise to client companies; technical department has qualified and experienced industrial/mechanical engineers and agriculturists who carry out in-depth technical appraisals and offer free technical advice.
- Do rigorous potential project appraisals using own staff, establish extensive conditions precedent with clients, and pay their suppliers directly after verification of specifications and appropriateness of purchases.
- Provide some advice on inputs but minimal post-loan supervision.
- Biggest challenge is finding borrowers with integrity; viable borrowers/projects are the limitation, not the availability of funds; professional project management is in short supply and is expensive.
- Escape (how they get their money and returns back) is sale of shares to entrepreneur or similar company, no stock market.
- In the near future will form a leasing company that will lease out assets with no collateral security. Such assets may include production tools

and equipment, automobiles, office equipment and furniture, computers, and the like.

C-2 Africa Project Development Facility (APDF), Uganda activities

- OCA program in Uganda was financed by a USAID grant after USAID/APDF identified a need for soft funding to cover startup costs of export businesses in Uganda (e.g., bringing in outside experts to manage projects such as rose exports, since no such Ugandan expertise exists).
- Need is *not* unique to Uganda, although in more developed countries (e.g., Kenya) there is more technical expertise available locally.
- Suggests that a regional OCA-type pool of funds available to APDF would be very helpful since the are a number of USAID projects in SSA, and APDF management would like to be able to tap into a regional fund in order to contribute their expertise to these projects where and when appropriate.
- Main reason APDF requires a $250,000 minimum size project is that below this the costs are too high relative to project size; that is, the same amount of time and other resources tends to be invested for a $250,000 project as for a $5 million project,
- Two Uganda examples where APDF has bent their minimum size rules for USAID (with as-yet uncertain results) include:

Snowpea production —group of smallholders in southwest Uganda: interesting example of USAID assisting at the production end with no clear marketing channel in sight. No exporter in the area was willing to take on the risk of exporting snowpeas for the farmers group. Without this vital link (ideally established *before* production), it is not likely that the undertaking will succeed (i.e., it may turn out that these producers would be better off growing maize).

Matovu chilies —total project value of $180,000; entrepreneur puts up roughly $50,000 (i.e., less than APDF's normal 40 percent of total project cost minimum). APDF has invested a tremendous amount of time trying to get this (apparently) entrepreneur to focus his energies on the project, and brought in a chili expert to look at production and marketing issues. As is often the case, the entrepreneur is not willing to risk committing himself totally to the project (i.e., he is still involved with various other things and does not focus his energies on this project). It is unclear whether this endeavor will be successful.

- Is proposing to use one or two local consulting firms, with APDF's oversight and training; will then go down to projects of $100,000, but not lower; however, the lower the dollar value, the less able APDF is to recover costs,
- Is no doubt that APDF's services are needed at the lower level; issue is the cost-effectiveness of providing these services; since smaller firms do not need the same *intensity* of services, it should be possible to provide them at a lower cost.

C-3 Kenya Trust for Private Enterprise (KTPE)

- Purpose was to strengthen Kenyan institutional and human resource's capabilities to assist firms via equity financing; 20–40 businesses were to be expanded and/or restructured and total new investment, employment, output, foreign exchange generation, and tax revenues increased.
- Industrial Promotion Services Ltd. (IPS), an existing company, and Kenya Equity Management (KEM), a new company, were the intermediaries for equity funds dispersement.
- All but one of the macro measurements (increased tax revenues) were met, but there is minimal evidence this was directly influenced by the project.
- Basically the market was not ready for and did not perceive the need to use venture capital.
- Kenyan firms typically operate with a very high debt; toequity ratio and prefer financing via additional debt versus sharing equity with others; owners do not even want to share accurate financial information with potential partners; inadequate market opportunity information and limited entrepreneurial capabilities means good new ventures are not very numerous; third party investors are rare due to the minimal "protection"

available for their investment.

- Overall project goals were unrealistic, and would be unrealistic even for fully developed venture capital markets such as those in the US.
- IPS operates as a holding company, directly manages its investments, and “rolls” very few (25 percent in 30 years) of its investments.
- KEM operates more as a merchant banking company than as a provider of venture capital,
- There is considerable uncertainly about whether the venture capital managerial resources at IPC or KEM were sufficient for the task at hand.
- USAID resources allocated to the project were insufficient to support one, much less two, venture capital firms; there was also insufficient monitoring, guidance and interaction between KEM and USAID and IPS and USAID.
- Due to the devaluation of the KSh in 1993, the US$ value of the trust was decreasing since there were few foreign exchange–based investments and the returns were insufficient to offset devaluation.
- If the project objectives were to experiment on and learn about the applicability of venture capital in Kenya, this was realized.
- USAID program designers and implementation managers had an insufficient understanding of venture capital in embryonic markets.

Appendix D

Private Enterprise Profiles

D-1 *Karzan*

Karzan is a medium-size of flower exporter with a good export market that can not grow using small-holder sourcing. With the shift in the EC market to direct (versus auction) sales, Karzan is using controlled Joint Venture (JV) production arrangements to meet the quality requirements of this market.

In business 3+ years; mostly non-roses.

- Works with three categories of suppliers; small independent *outgrowers* (6 -7 million stems/year), commercial *clients* (35 million stems), and *JV* or owned *production* (currently 4 million stems).
- Has about 110 small *outgrowers*, whose plots are between 0.5 and 2.5 acres.
- Collects from outgrowers by truck and land cruiser; very few deliver to Karzan's (K) cold store.
- Provides fertilizer and some planting materials, but only to outgrowers they *know* will sell them flowers.
- Grades flowers at the cold store and pays 2 times/month on a graded basis.
- Outgrowers ability to expand is minimal due to capital requirements (cold store) and a limited market size for the easier to grow outdoor varieties.
- *Clients* are larger growers who have from 10–20 acres each; they grade their own flowers (some roses under plastic), have their own cold stores, and deliver to Karzan they range from a bottler to experienced horticulturists.
- Karzan helped clients establish their operations and provides ongoing TA (by the 2 Karzan owners) and marketing; clients pay Karzan a commission for this service.
- Karzan consolidates clients' shipments, markets via their Dutch agent, receives payment from the EC customer, subtracts their commission, and pays the client.
- Capital availability is also a constraint for the smaller clients since cold stores and transportation equipment is expensive.
- Have recently developed 20 acres of "controlled" production under lights as JVs with a few of their best growers,
- JVs will accept Karzan's advise and know how to manage or hire professional farm/operations managers; smaller firms do not have the scale to do this.
- Use one agent in Holland and sell 70 percent to auctions (under quotas) and 30 percent direct to wholesalers.
- Dutch growers started the two auctions and therefore foreign quotas are being reduced.
- Agent provides daily prices via fax.
- Agent can market more flowers, especially via direct sales, than Karzan can ship.
- Expect nearly all business expansion to be from own/JV production due to ability to control output type, quality, and timing; the direct market (highest growth channel) will *reject* off spec product, not just pay a lower price as at the auction.
- Their JV based expansion will be in specialized,

high-technology varieties to minimize competition, maximize price, and thus reduce the relative importance (percent) of freight cost.

- Freight was $1.75/kg in late 1994 and $1.86 in 1993; the flower shippers *together* negotiated a lower rate (Ethiopia is $0.95/kg.).
- Excess of $0.12/kg. goes to HCDA.
- FPEAK's impact not impressive, but they did help resolve the Kenya Air Freight handling problem.
- Kenya's advantage is year-round production (i.e., off-season supply to Europe.

D-2 *Standard Chartered Estate Management* (SCEM)

SCEM manages vast production acreage for large owners, cooperatives and multi-shareholder farming companies. Their full service approach has resulted in almost no defaults in a very large (KSh 70 billion) agricultural portfolio. Their efforts at consolidating smallholders into larger more efficient units have not been very successful, usually due to "social" problems.

- 17 years of experience in estate management; acquired by Standard Chartered in 1984.
- Has 217 employees and manages 277,100 acres producing coffee (30 percent of Kenya's acreage), tea, sisal, sugar, wheat, mixed farming, horticulture, and ranching; largest estate management company in Sub-Saharan Africa.
- Standard Chartered resources (mostly loans) to enterprises SCEM manages are KSh 70 billion (US$1.4 billion).
- Objectives are to expand and protect Standard Charter's commitment to Kenyan agriculture (currently 23 percent of its loan portfolio) *and* effectively manage owners' operations.
- Package includes finance, management, input supply, accounting, and sales agency.
- Agree on business plan and budget with owner(s) at beginning of the year and take full responsibility for implementing agreed plan.
- Draws down pre-established credit lines (secured by property and the crop) for inputs, sells output, and pays off loans, *then pays owners* from sale proceeds.
- Input supplies are directly imported in bulk with extensive back-up inventory.
- Some estates are jointly owned by cooperative or shareholder groups therefore second party professional management minimizes internal dissent.
- Have an in-house training facility for farm and estate managers; each managed estate has an SCEM-hired manager,
- Also does feasibility studies, turn-key projects, and provides TA to financial institutions (e.g., IFC and APDF).
- Agency business most straight forward when a marketing board is involved, thus price information is well known.
- Has had poor experience managing consolidated acreage of small horticultural growers; political considerations, differences of opinion among members, and their accounting system preferences cause problems.
- Developed a plan for a large project for consolidating many smallholder dilapidated coffee plantations, rehabilitating them, and providing SCEM's full services; the rehabilitation would need donor financing and this is still being considered by the EU; could not include smallholders of less than 5 acres due to the administration/ reporting costs versus potential revenue.
- Have similar estate management activities in Ghana, Zambia, Malawi, and Zimbabwe.
- Provided initial assistance to Ziwa's (Uganda) asparagus and leatherleaf startup, but this was not very successful and an ANEPP-provided consultant from California had to take over.

D-3 *Lonrho*

Lonrho is a diversified mega agribusiness in the Kenya context and is extensively backward and forward integrated. It makes extensive use of contract growers but provides model farms, high-technology inputs, and its own extension service. It also does most of its own applied research.

- Agribusiness division has 4,000 employees.
- Highly integrated, high-technology production, processing (much high value added), and marketing— both export (18 percent, mostly regional) and domestic (82 percent) — organization.
- Originally in forestry, cereal production, and cattle farming; now one of Kenya's largest producers of timber products, seed maize, waddle extract, mushrooms, milk, cattle, pigs, poultry, pork, and beef products (also ostrich farming).
- Important consumer brands include Farmer's Choice (85 percent processed meats market share), Eldore, Flamingo, and Kenmosa.
- 50 percent of meat raw materials from own farms, 50 percent from "small" farmers.
- Supply semen, breeding guilts, and feed to contract producers.
- Have the largest refrigerated food distribution system in Kenya; also distribute other's products, including Echuka Farm's yogurt.
- The efficiency of full integration, professional management, and scale economies results in highly competitive processed meat exports.
- Lonrho provides the technology, capital, and international marketing expertise and the Kenya small farmer his labor and the raw material.
- Breed Boran cattle and are exporting both semen and embryos.
- Have game reserves attached to their cattle ranches as a means to help preserve game in a self-financing manner (i.e., via tourism ([Lonrho Hotels]).
- Wattle operations use 85 percent outside sourcing.
- Mushroom operations use wheat straw and spent wattle bark.
- Use outgrowers for seed potato multiplication.
- Provide own extension service for all higher technology contract production and most extension services for other contract production.
- Have an agricultural research budget similar to Kenya Agricultural Research Institute's and work on similar projects since KARI's results are not always applicable/suitable to Lonrho.
- Use nucleus or model farms to develop and demonstrate the best agricultural practices.

D-4 *Ronco Pyrethrum Project*

- Agro Management Group Inc. (Agro), a California corporation owned by Ronco principals, established to invest in agribusiness in developing countries; first investment was the production, marketing, and processing of pyrethrum in Kabali, Uganda for export; project provides a new source of smallholder cash income, generates substantial employment, and provides foreign exchange earnings; Agro had 100 percent equity prior to seeking additional financing; project now in its third year of development and more than $1 million has been invested.
- Ronco undertook preliminary investigations and produced a feasibility study on production, marketing, and processing of pyrethrum; built around an assured market, and following a strategy of close collaboration with the U.S. buyer of the product, project is demand-driven, and although risky, is a sound financial investment.
- Undertaking all phases of the production, marketing, and processing of flowers in Uganda; this vertically integrated approach allows control of the critical elements of the production system; plant introduction, selection, multiplication, and distribution are financed and managed by Agro; company created its own extension service to help some 4,000 contract farmers obtain maximum results; farmer gets high returns to land and labor inputs while Agro gets greater production and reduces marketing costs by obtaining greater quantities of flowers in a more concentrated area.
- Created own marketing service to buy the flowers from farmers; this service is innovative be-

cause it is completely financed by the investor and is the first all-female buying service for a major export crop in Africa; hired the agents and trained them in how to operate a buying center (currently nine); believes in the principle that service to client farmers based on honesty and integrity is essential to the company's welfare and profits.

- Second principle is systematic, fair, and on-time payment for the produce delivered; pays all farmers monthly, clearing the books on all purchases made up to the 20th of the month by the 1st of the following month; to protect the smallholder farmer against inflation and devaluation in Uganda's economy, instituted a dollar-linked payment schedule where prices are adjusted to their dollar equivalent each month.
- Have 35 of own extension agents and 2 employees working at a 15-acre closed government research station doing varietal and cultural applied research.
- Contract growers had 500 acres (200 hectares) producing flowers by January 1993, 20 months after first feasibility study; will expand to 1,000 acres (400 hectares) with a target of 8,000 growers, as more planting material becomes available; speed of implementation attests to the rapid response private sector investors and farmers can make to a business opportunity; smallholder farmers must be convinced that an investing company is sincere in its promises and dedicated to its execution and want to see action take place rapidly and on a steady basis; high initial investment costs can only be recouped with high levels of production, obtained as early as possible in the investment cycle.
- In areas that have the correct elevation and climate, farmers can earn up to $750 per hectare with little input besides land and labor; this exceeds almost all other possible crops; expect 48,000 rural people to benefit from the project; farm income will increase $1.5 million/year in the growing area.
- Is committed to leaving up to 10 percent of project profits with associations or groups of local pyrethrum growers to empower them to be an economic force in the Ugandan economy.
- Has reached this stage in the project using its own resources and $1 million from Ronco *without recourse to either public funds or financial capital markets.*
- Had contract with a plant in Rwanda to process the product; political conflict resulted in the plant being closed; now must build own processing plant.
- Next phase is seeking financing for a $2.2 million investment in a processing plant that will create 125–150 additional jobs.
- Expect to get financing from IFC, East Africa Development Bank and DFCU (and possibly OPIC) in April 1995 and to export the first product in early 1996.

D-5 *Ziwa Horticultural Exporters Ltd.*

- Located in the Mukono District; 50 km. from Kampala on 1,000 acres,
- Owned by Captain Roy, who also owns Dairo Air Freight and many farms/ranches in Uganda.
- Has a Ugandan manager; their full-time Dutch technical specialist supplied by their Holland-based agent.
- 345 full-time employees (half women); require 20 people/ha. for growing and picking and 10 people/ha. for grading and packing.
- Have 1 ha. roses outdoors and 2 ha. roses under plastic (yield around 7.5 tons/acre/year); also grow asparagus outdoors and leatherleaf under plastic.
- Large cold storage and grading building plus own insulated trucks.
- Start-up costs for roses under plastic are in the area of $500,000/acre.
- Use drip irrigation with fertilizer supplied via irrigation, use 600 cubic meters water/day from own sources; spray pesticides 3 times/week.
- Have problems with consistency of power sup-

ply so own generator required, which runs frequently, public power is comparatively (to other exporting countries) expensive.

- Air freight costs $1.60/kg on Sabina and $1.85 on Dairo ($0.05/stem); this compares to $2.10 in Kenya; air freight runs about 25 percent of sales price.
- Costs other than air freight run another $1.00; average sales price is around $6.00/kg.
- Will export around 6 million stems in 1994.
- Received a technical grant from the OCA USAID/APDF project for $96,000 to help resolve asparagus problems; California asparagus grower did the job but they have been delayed 2 years with the initial problems.
- No formal impact studies, but on-site management reports major positive development "indicators" in the surrounding area, (e.g., housing construction/remodeling, private clinic volume, school attendance, road side kiosks).

Appendix E

Project Scope of Work

Appendix E
Bibliography

AFRICA

Holtzman, John S., Richard D. Abbott; Carol Adoum; and collaborators. *Agribusiness Development in Sub-Saharan Africa: Suggested Approaches, Information Needs and an Analytical Agenda*, vol. 2: Country Annexes. September 1992.

Swanberg, Kenneth G. *A Background Paper: Africa Private Enterprise Fund.* August 1993.

Holtzman, John S., Charles J. D. Stathacos, Thomas Wittenberg, and collaborators. *Horticultural Marketing in Export in Senegal: Constraints, Opportunities and Policy Issues*. December 1989. PB-ABF-141.

UGANDA

Eriksson, John, John Balis; and Roger Poulin. *Assessment of USAID Support for Agribusiness: Uganda Case Study.* June 1994

International Science and Technology Institute, Inc. *Final Report and Review: Uganda ANEPP-PHH Project*. September 1994.

U.S. Agency for International Development. *Uganda: Agricultural Non-Traditional Export Promotion Program (ANEPP) (617-0133).* PD-AAZ-547

Enger, Warren J., Derrick R. Burgess, and J. K. Ahimbisibwe. *Oilseed Production and Processing Sector Analysis.* Cooperative Agriculture and Agribusiness Support Project - Uganda. PN-ABC-992 July 1989.

U.S. Agency for International Development. *Uganda: Cooperative Agriculture and Agribusiness Support Project (617-0111).* PD-BBP-984. September 1994.

Kabuga, C. *Response to the CAAS Evaluation Draft Report*. Uganda Cooperative Alliance. 30 August 1990.

Carr, Thomas. *CAAS Project Quarterly Report.* June 1991.

Carr, Thomas. *CAAS Project Quarterly Report.* September 1991.

KENYA

U.S. Agency for International Development. *Country Program Strategic Plan FY 1990–1995.* PN-ABE-620; ISN65206. March 1990.

U.S. Agency for International Development. *Kenya: Agricultural Management Project (615-0221).* PD-ABD-227. ISN73653. June 1991.

U.S. Agency for International Development. Kenya National Agricultural Research Project (615-0229) PD-BBD-467. June 1993.

Abt Associates Inc., Postharvest Institute for Perishables, and Agribusiness Association of Kenya. *Constraints in the Kenyan Fruit Juice Processing Industry*. Final Report. September 1993.

U.S. Agency for Internatonal Development. *Appraisal Report Horticulture and Traditional Food Crops Development Project; Republic of Kenya*. 1993.

Watkins, Chandra D., and S. Embassy in Nairobi, Kenya. *Kenya—verseas Business Report - OBR9301*. 1993.

Appendix F

List of Persons Interviewed

KAMPALA, UGANDA

Victor Amann
Agricultural Cooperative Development International
256-041-258898

James Cartwright
ISTI

James Dunn
USAID
256-041-257285

Duane Eriksmoen
USAID
256-041-235879

Ddingiro-Lwanga Geoffrey
ZIWA Horticultural Exporters Ltd.
256-041-244241

David Heemsbergen
Volunteers in Overseas Cooperative Assistance
202-383-4961

William Kalema
UMA Consultancy and Information Services
256-041-236182

Sam Kibalama-Katumba
Horticulture Exporter Assn.

Matthias Kibuka
USAID
256-041-244087

Rita Laker-Ojok
ATI

Philip Mikos
European Union
256-041-233303

Sami Moussa
African Development Bank
225-204636

J.S. Mugerwa
Makerere University
256-041-542277

James Mulwana
Uganda Manufacturers Association
256-41-236148

Edison Mwange
Makerere University
256-041-542277

Prof. Erisa Ochieng
Export Policy Analysis and Development Unit
256-041-231363

Rick Phillips
Development Finance Company of Uganda Ltd.
256-041-256125

A. Sekalala
UVAN Limited
256-041-243490

Karim Somani
CEI
256-041-250212

Sam Tulya-Muhika
International Development Consultants Ltd.
256-041-244725

Holly Wise
USAID
254-2-331160

Fred Zake
UMA Consultancy and Information Services
256-41-236182

NAIROBI, KENYA

Dean Alter
USAID
254-2-331160 x500

Joe Carvalho
USAID

John Flynn
USAID/REDSO/E

Herbert G. Muhia
Kenya Small Scale Farmers Association
254-2-724904

Christian Hegemer
Hanns Seidel Foundation
254-2-742054

John James
APDF

Mr. Kiplagat
AAK

Michael Klesh
USAID/REDSO
254-2-331160 x2358

Zaine Manji
Carzan Flowers

Ian Morrell
FPEAK

Henry Ogola
Kenya Fertilizer Assn.

Jane Ulman
APDF

Amin Gwaderi
House of Manji Ltd.
254-2-555944

Victor Pratt
Kenya Management Assistance Programme
254-2-220853

Bernhard Löhr
IPM Horticulture
254-2-569071

Joseph Gichuki
SEPSO Ltd.
254-2-448576

Peeush Mahajan
East African Growers Ltd.
254-2-221145

John Ngatia
Meridien Securities Kenya Ltd.
254-2-339068

Russell Clark
LONRHO Agribusiness (K)
254-2-214752

P.F. Jenner
Standard Chartered Estate Management Ltd.
254-2-216378

Dennis Weller
USAID
254-2-331160 x2239

Peter Herrman
Friedrich-Naumann-Stiftung
254-2-442321

John Kashangaki
Agriconsult Ltd.
254-2-227834

Matesh Gohil
Kenya Management Assistance Programme
254-2-220853

Thomas Hobgood
USAID
254-2-331160 x70

Migwe Kimemia
USAID
254-2-331160

Paul Guenette
Kenya Export Development Support
254-2-221106

Ngure Mwaniki
Agriconsult Ltd.
254-2-227834 x5

Dennis McCarthy
USAID
254-2-331160

Jairosi Ochino
Cargill East Africa Ltd.
254-2-22929

Notes

1 Statement of Work: Monitoring and Impact Assessment of Innovative Approaches to Agricultural Marketing Systems Development, See Appendix E.

2 USAID Kenya defines micro enterprises as those with fewer than 10 employees, small enterprises from 10 to 50 employees, medium enterprises from 50 to 100, and large enterprises more than 100.

3 The information for this discussion was obtained entirely from secondary sources.

4 USAID support to agribusinesses began in 1984 and first focused on the rehabilitation of agro-enterprises. ANEPP was initiated in 1988 and its first focus was on policy reform. Phase II (1990–1992) replaced the use of CIPS with NPA and PL 480 and along with policy reform began to emphasize direct assistance to agribusinesses and a focus on a limited number of specific NTAE commodities. The most recent phase (1992–1994) and the focus of this study, has continued NPA in support of policy reforms and an increased emphasis on direct assistance to agribusinesses.

SD Technical Papers

Office of Sustainable Development
Bureau for Africa
U.S. Agency for International Development

The series includes the following publications:

1 / *Framework for Selection of Priority Research and Analysis Topics in Private Health Sector Development in Africa*
*2 / *Proceedings of the USAID Natural Resources Management and Environmental Policy Conference: Banjul, The Gambia / January 18-22, 1994*
*3 / *Agricultural Research in Africa: A Review of USAID Strategies and Experience*
*4 / *Regionalization of Research in West and Central Africa: A Synthesis of Workshop Findings and Recommendations (Banjul, The Gambia. March 14-16, 1994)*
*5 / *Developments in Potato Research in Central Africa*
*6 / *Maize Research Impact in Africa: The Obscured Revolution / Summary Report*
*7 / *Maize Research Impact in Africa: The Obscured Revolution / Complete Report*
*8 / *Urban Maize Meal Consumption Patterns: Strategies for Improving Food Access for Vulnerable Households in Kenya*
*9 / *Targeting Assistance to the Poor and Food Insecure: A Literature Review*
10 / *An Analysis of USAID Programs to Improve Equity in Malawi and Ghana's Education Systems*
*11 / *Understanding Linkages among Food Availability, Access, Consumption, and Nutrition in Africa: Empirical Findings and Issues from the Literature*
*12 / *Market-Oriented Strategies Improve Household Access to Food: Experiences from Sub-Saharan Africa*
13 / *Overview of USAID Basic Education Programs in Sub-Saharan Africa II*
14 / *Basic Education in Africa: USAID'sApproach to Sustainable Reform in the 1990s*
15 / *Community-Based Primary Education: Lessons Learned from the Basic Education Expansion Project (BEEP) in Mali*
16 / *Budgetary Impact of Non-Project Assistance in the Education Sector: A Review of Benin, Ghana, Guinea, and Malawi*
*17 / *GIS Technology Transfer: An Ecological Approach—Final Report*
*18 / *Environmental Guidelines for Small-Scale Activities in Africa: Environmentally Sound Design for Planning and Implementing Humanitarian and Development Activities*
*19 / *Comparative Analysis of Economic Reform and Structural Adjustment Programs in Eastern Africa*
*20 / *Comparative Analysis of Economic Reform and Structural Adjustment Programs in Eastern Africa / Annex*
*21 / *Comparative Transportation Cost in East Africa: Executive Summary*
*22 / *Comparative Transportation Cost in East Africa: Final Report*
*23 / *Comparative Analysis of Structural Adjustment Programs in Southern Africa: With Emphasis on Agriculture and Trade*
*24 / *Endowments in Africa: A Discussion of Issues for Using Alternative Funding Mechanisms to Support Agricultural and Natural Resources Management Programs*
*25 / *Effects of Market Reform on Access to Food by Low-Income Households: Evidence from Four Countries in Eastern and Southern Africa*
*26 / *Promoting Farm Investment for Sustainable Intensification of African Agriculture*
*27 / *Improving the Measurement and Analysis of African Agricultural Productivity: Promoting Complementarities Between Micro and Macro Data*
*28 / *Promoting Food Security in Rwanda Through Sustainable Agricultural Productivity*
*29 / *Methodologies for Estimating Informal Crossborder Trade in Eastern and Southern Africa*
*30 / *A Guide to the Gender Dimension of Environment and Natural Resources Management: Based on Sample Review of USAID NRM Projects in Africa*
*31 / *A Selected Bibliography on Gender in Environment and Natural Resources: With Emphasis on Africa*
*32 / *Comparative Cost of Production Analysis in East Africa: Implications for Competitiveness and Comparative Advantage*
*33 / *Analysis of Policy Reform and Structural Adjustment Programs in Malawi: With Emphasis on Agriculture and Trade*
*34 / *Structural Adjustment and Agricultural Reform in South Africa*
*35 / *Policy Reforms and Structural Adjustment in Zambia: The Case of Agriculture and Trade*
*36 / *Analysis of Policy Reform and Structural Adjustment Programs in Zimbabwe: With Emphasis on Agriculture and Trade*
37 / *The Control of Dysentery in Africa: Overview, Recommendations, and Checklists*
38 / *Collaborative Programs in Primary Education, Health, and Nutrition: Report on the Proceedings of a Collaborative Meeting, Washington, D.C., May 7-8, 1996*
*39 / *Trends in Real Food Prices in Six Sub-Saharan African Countries*
*40 / *Cash Crop and Foodgrain Productivity in Senegal: Historical View, New Survey Evidence, and Policy Implications*

* Produced and dissemination under contract to USAID/AFR/SD by AMEX International, Inc. For copies or information, contact: Outreach Systems Assistant / AMEX International, Inc. / 1111 19th Street North / Arlington, VA 22209. Phone: 703-235-5276. Fax: 703-235-5064.

U.S. Agency for International Development
Bureau for Africa
Office of Sustainable Development
Productive Sector Growth and Environment Division
Washington, D.C. 20523-0046